HKT

Annual Report 2014

Stock Code: 6823

BUILDING FOR

TOMORROW,
TODAY.

a PCCW Group member

CONTENTS

CORPORATE PROFILE

HKT is Hong Kong's premier telecommunications service provider. It meets the needs of the Hong Kong public and local and international businesses with a wide range of services including local telephony, local data and broadband, international telecommunications, mobile, and other telecommunications businesses such as customer premises equipment sale, outsourcing, consulting, and contact centers.

Together with the highly successful media business of its parent company, PCCW Limited, HKT offers innovative media content and services across the PCCW Group's unique quadruple-play platforms – fixed-line, broadband Internet access, TV and mobile.

Employing approximately 17,600 staff, HKT is headquartered in Hong Kong and maintains a presence in mainland China as well as other parts of the world.

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).

SIGNIFICANT EVENTS IN 2014

JANUARY
PCCW Global and 16 other prominent service providers around the world sign the Construction and Maintenance Agreement for the Asia Africa Europe-1 cable system.

FEBRUARY
HKT's first Smart Living Store officially opens at HomeSquare in Shatin.

HKT, Chunghwa Telecom, KDDI, and SK Planet form the Asia NFC (Near Field Communication) Alliance to further accelerate the adoption of NFC services worldwide.

HKT announces strong financial results for the year ended December 31, 2013.

HKT's proposed acquisition of CSL New World Mobility Limited (CSLNW – now known as CSL Holdings Limited) is approved by HKT unitholders and PCCW shareholders.

MARCH
PCCW Global collaborates with Phase3 Telecom to bring enhanced communications solutions for Nigeria and other West Africa nations, and subsequently with Telecom Namibia to provide greater local access to the Southern African Development Community.

MAY
Mr. Aman Mehta is appointed as an Independent Non-Executive Director of HKT.

HKT completes the acquisition of CSLNW on May 14.

HKT launches Hong Kong's first VoLTE (Voice over LTE) service.

PCCW Global opens a new state-of-the-art Global High Definition Video Communications Center at the Telecom House in Wanchai.

JULY
HKT relaunches a new mobile service brand, csl.

HKT kicks off the "Building for Tomorrow, Today" campaign to reaffirm our commitment to serving the evolving communication and lifestyle needs of Hong Kong people through continuous innovation and investment.

AUGUST
Mr. BG Srinivas is appointed as a Non-Executive Director of HKT.

HKT announces solid financial performance for the six months ended June 30, 2014.

HKT takes part in the Government's Wi-Fi.HK project aimed to offer the public and visitors free Wi-Fi service.

Hong Kong's first Xiaomi x csl. Store opens in Kowloon Bay.

SEPTEMBER
HKT unveils the new SUN Mobile brand, a joint venture with Telecom Digital.

OCTOBER
PCCW Global and du collaborate to offer Smart Home services across the United Arab Emirates.

PCCW Global acquires Crypteia Networks, a European company offering innovative security-as-a-service solutions.

DECEMBER
HKT becomes The Wheel's official and exclusive partner for advertising and promotion activities.

HKT and parent company PCCW receive an award for the highest service hours of volunteer services from the Social Welfare Department.

HKT education becomes Google's authorized eLearning service provider in Hong Kong.

HKT inaugurates a new unified loyalty and rewards program across all its services, The Club, providing its members with a variety of exclusive services and benefits.

csl. becomes Hong Kong's first mobile operator to upgrade its mobile network to 4G LTE-Advanced at 300Mbps.

AWARDS

Award	Awardee	Scheme Organizer
AfricaCom Awards 2014 • Best Pan African Initiative Finalist • Breakthrough LTE Development Finalist	PCCW Global	Informa Telecoms & Media
Asia Pacific Best Practices Awards 2014 • Greater China Customer Service Leadership Award In Contact Center Outsourcing Market	PCCW Teleservices	Frost & Sullivan
Asia Pacific Contact Centre Association Leaders Recognition Awards	HKT	Asia Pacific Contact Centre Association Leaders
Asia Pacific Property Awards • Highly Commended Retail Interior in Hong Kong	HKT Central Signature Store	The International Property Awards
2014 Asia-Pacific Stevie Awards • Silver Award for New Consumer Service of the Year	PCCW Teleservices	The Stevie Awards
AV Awards 2013 • Mobile Broadband	HKT's mobile service	*AV Magazine*
Award for Excellence In Training & Development 2014 • Distinguished Trainer Award	csl. staff member	The Hong Kong Management Association
Award of 10,000 Hours for Volunteer Service	HKT	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Best Loved Brands Awards 2013 • Home Broadband Service	NETVIGATOR	RoadShow

HKT has won the Champion in the Company/Organization category of the Biggest Units Saver Award of the Power Smart Energy Saving Contest organized by Friends of the Earth (HK) for two consecutive years of 2013 and 2014.

HKT has scooped a total of 19 awards including the Grand Award of the Year at the Hong Kong Call Centre Association Awards 2014.

Award	**Awardee**	**Scheme Organizer**
Best of IT Awards 2013		*PC Market*
• My Favorite Home Broadband Service Award	NETVIGATOR	
• My Favorite Mobile Service Provider Award	HKT's mobile service	
Best of the Best Choice for Executives 2014		*CAPITAL*
• Mobile Operator	csl.	
Best Practice Awards China 2014		*Best Practice Management* and Baronmead Consulting
• Best Practice Award in the "Customer Retention" Category	PCCW Teleservices	
CAPITAL WEEKLY Service Awards 2014		*CAPITAL WEEKLY*
• Mobile Broadband Service Provider	1010	
Caring Company	HKT	The Hong Kong Council of Social Service
China Best Customer Contact Center Awards 2014		51CallCenter
• Best China Customer Experience	PCCW Teleservices	
• Best China Customer Contact Center Administrator		
Computerworld Hong Kong Awards 2014		*Computerworld Hong Kong*
• Best Corporate Mobile Services Provider	HKT's mobile service and 1010	
• Best Data and Telecom Services Provider	HKT	
• Best Mobile Device Management	HKT's Mobile Device Management	

PCCW Global has won the Best Asian Wholesale Operator and African Wholesale Operator awards at the Telecom Review Summit 2014.

1010 has been named the 2014 Service Retailer of the Year in the Telecommunications Category, and a staff member of 1010 Centre an Individual Award Winner of the Supervisory Level at the Service & Courtesy Award 2014, both by the Hong Kong Retail Management Association.

Award	Awardee	Scheme Organizer
2014 ContactCenterWorld Top Ranking Performers Awards • Best in Customer Service – Mega (Outsourced) – Gold • Best Contact Center – Mega (Outsourced) – Silver • Best Help Desk – Silver • Best Contact Center Executive/Director – Bronze • Best Recruitment Campaign – Bronze	PCCW Teleservices	ContactCenterWorld
Customer Relationship Excellence Awards 2013 • Customer Service Professional of the Year 2013 (Telecommunications – Contact Center) • Merit – Customer Service Professional of the Year 2013 (Contact Center)	HKT Premier staff members	The Asia Pacific Customer Service Consortium
Customer Service Excellence Award 2013 • Individual Award – Counter Service – Silver • Individual Award – Internal Support Service – Bronze	HKT Commercial Customer Services staff member HKT Call Center Sales staff member	Hong Kong Association for Customer Service Excellence
e-brand awards 2014 • The Best of Mobile Network Service • The Best of Residential Broadband Service	csl. NETVIGATOR	*e-zone*
Enterprise Europe Network Awards • New Success Finalist	Crypteia Networks	European Commission
Ethernet Excellence Awards • Wholesale Service Provider of the Year – APAC	PCCW Global	Metro Ethernet Forum (MEF)

PCCW Teleservices has garnered the Best Practice Award in the "Customer Retention" Category at the Best Practice Awards China 2014.

HKT and parent company PCCW have received an award for the highest service hours of volunteer services from the Social Welfare Department for the 13th straight year.

Award	Awardee	Scheme Organizer
Global Carrier Awards 2014		*Capacity Magazine*
• Executive of the Year for Industry Contribution	Marc Halbfinger, CEO of PCCW Global	
• Best Asian Wholesale Carrier Finalist	PCCW Global	
• Best Technology Innovation Finalist		
Green Office Label	HKT	World Green Organisation
HK Golden IT Award 2014		HK Golden
• Best Residential Broadband Service	NETVIGATOR	
HKQAA 25th Anniversary Recognition Programme		Hong Kong Quality Assurance Agency
• Pioneering Organisation in Systems Management	Hong Kong Telecommunications (HKT) Limited	
• Outstanding Organisation with Comprehensive Management Systems	Hong Kong Telecommunications (HKT) Limited and PCCW Global	
Hong Kong Call Centre Association Awards 2014		Hong Kong Call Centre Association
• Grand Award of the Year	HKT	
• Inbound Contact Centre of the Year (Below 20 Seats) – Gold		
• Inbound Contact Centre of the Year (Over 50 Seats) – Gold		
• Best Contact Centre Campaign – Gold		
• Best Contact Centre in Quality Assurance – Silver		
• Best Contact Centre in Technology Application – Silver		
• Best Contact Centre Campaign – Silver		
• Inbound Contact Centre of the Year (20~50 Seats) – Bronze		
• Outbound Contact Centre of the Year (Below 20 Seats) – Merit		
• Outbound Contact Centre of the Year (20~50 Seats) – Gold	PCCW Teleservices	
• Contact Centre Trainer of the Year – Gold	HKT Call Center Services staff members	
• Contact Centre Technical Support Professional of the Year – Gold		
• Contact Centre Quality Assurance Professional of the Year – Sliver		
• Multi Media Contact Centre Representative of the Year – Bronze		
• Inbound Contact Centre Manager of the Year – Merit		
• Inbound Contact Centre Manager of the Year – Bronze	HKT Call Center Sales staff members	
• Outbound Contact Centre Team Leader of the Year – Bronze		
• Inbound Contact Centre Team Leader of the Year – Merit		
• Inbound Contact Centre Team Leader of the Year – Bronze	HKT Commercial Customer Services staff member	

Award	Awardee	Scheme Organizer
Hong Kong Computer & IT Brand Awards 2014 • Excellent Brand of Fibre Broadband and Cloud Services	NETVIGATOR	Metro Info and The Chamber of H.K. Computer Industry
Hong Kong Retail Industry Trade Awards • Industry Super Retailers of the Year	HKT	Retail Asia Expo
Hong Kong Service Awards 2014 • Internet Service Provider • Long Distance Call • Mobile Service Provider	NETVIGATOR IDD 0060 HKT's mobile service	*East Week*
iChoice Award 2014 • Residential Broadband Service Provider	NETVIGATOR	HK Discuss and Uwants
Merit of Highest Service Hour Award in 2013 (Private Organisations – Category 1)	HKT	Steering Committee on Promotion of Volunteer Service, Social Welfare Department
Most Valuable Services Awards in Hong Kong 2014 • Most Reliable Mobile & Wireless Solutions	HKT's mobile service	Mediazone
Outstanding Volunteer Awards	HKT	Social Welfare Department – Eastern and Wan Chai Districts
PC3 Platinum Brand Election 2014 • Mobile Service	HKT's mobile service	*PC3 Magazine*
Power Smart Energy Saving Contest 2013 • Biggest Units Saver Award (Company) – Champion	HKT	Friends of the Earth (HK)
Quamnet Outstanding Enterprise Awards 2013 • Outstanding Mobile Service Provider	HKT's mobile service	Quamnet
Service & Courtesy Award 2014 • Electronic & Electrical Appliances/ Telecommunications Category – Junior Frontline Level – Individual Award & Outstanding Performance Award • Electronic & Electrical Appliances/ Telecommunications Category – Supervisory Level – Individual Award	HKT Shop staff members 1010 staff member	Hong Kong Retail Management Association
Mystery Shoppers Programme • 2014 Service Retailer of the Year – Telecommunications Category	1010	Hong Kong Retail Management Association
Sing Tao Service Awards 2013 • Telecom Service Provider	HKT's mobile service	*Sing Tao Daily*

Award	Awardee	Scheme Organizer
SMB World Awards 2014		*SMB World*
• Best Business Internet Broadband	Business NETVIGATOR	
• Best Corporate Mobile Services Provider	1010	
• Best SMB Cloud Storage	HKT Cloud Office	
• Best SMB Partner – Technology	HKT	
2014 Successful Design Awards		Successful Design Organization
• Successful Design Award	HKT Central Signature Store	
Supreme Brand Awards 2013		*CAPITAL CEO x CAPITAL ENTREPRENEUR*
• Supreme Smart Home Solutions	Smart Living	
• Supreme Broadband Service Provider	NETVIGATOR	
Telecom Review Awards 2014		Telecom Review
• Best African Wholesale Operator	PCCW Global	
• Best Asian Wholesale Operator		
The Best SME Partners		*Economic Digest*
• ICT Service Provider	HKT	
• Internet Service Provider	Business NETVIGATOR	
The Telecoms World Middle East Awards		Terrapinn
• Best International Wholesale Carrier	PCCW Global	
The 14th CAPITAL Outstanding Enterprise Awards		*CAPITAL*
• Outstanding Fixed Telecommunications Network Services Provider	HKT	
Top Service Awards 2014		*NEXT Magazine*
• Internet Service Provider	NETVIGATOR	
• Best Staff Award – 2nd runner-up	HKT Call Center Services staff member	
2014 Top 50 Teleservices Agency Awards		*Customer Interaction Solutions Magazine (US)*
• Interactive Inbound – No. 3	PCCW Teleservices	
• Outbound – International – No. 3		
• Inbound – International – No. 3		
• Outbound – Domestic US – No. 18		
• Global Aggregate – No. 4		
• Inbound – Domestic US – No. 18		
TOUCH Brands 2014		*East TOUCH*
	csl.	
	NETVIGATOR	
United Nations Millennium Development Goals "Better World Company" Label	HKT	Junior Chamber International Hong Kong
World Communications Awards 2014		Total Telecom
• Users Choice Finalist	PCCW Global	

STATEMENT FROM THE CHAIRMAN

I am pleased to report that the successfully integrated and enlarged mobile business and the satisfactory performance of the other operations contributed to a solid growth of HKT in 2014.

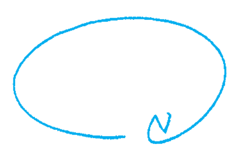
The mobile business has now become an even more significant part of HKT's strategy, especially in this increasingly mobile-centric world. Within a few months of the completion of the acquisition of CSL New World Mobility Limited last May, HKT has re-launched the brands, rationalized the retail channels and enhanced our market offerings for the benefit of our customers. We have commenced aggregating the spectrum to upgrade network speed, while good progress has also been made in fully integrating our radio networks with a view to realizing further cost synergies arising from the acquisition.

HKT's fixed broadband business continued to record healthy growth last year against a softer economy, dampened market sentiment on spending and intensified price competition. The number of customers enjoying HKT's genuine fiber-to-the-home (FTTH) service has exceeded half a million, and it is still growing steadily.

Internationally, building on its well-diversified geographical footprint, PCCW Global further expanded its network coverage and resilience, and enriched its service capabilities during the year. This business is poised to benefit from the increasing global market demand in particular for data connectivity.

Entering 2015, local economic growth appears subdued and there are some uncertainties in the global economies including the Eurozone. Nevertheless, given the much stronger position HKT now enjoys as the leader in fixed line and broadband as well as mobile communications, we are confident of further growing the company in the interests of our unitholders.

Finally, the Board wishes to pay tribute again to Sir Roger Lobo, who retired last May as an Independent Non-Executive Director after serving the Board and unitholders well for many years. The Board also welcomes the appointment of Mr. BG Srinivas, Group Managing Director of PCCW Limited, who joined as a Non-Executive Director in August.



Richard Li
Chairman
February 10, 2015

STATEMENT FROM THE GROUP MANAGING DIRECTOR

We are pleased to report a set of strong financial results for the year ended December 31, 2014, which was underpinned by solid performance of HKT's various lines of business and the integration of the acquired mobile business.

DELIVERING ON CSL ACQUISITION

As reported in the Interim Report 2014, integration of the CSL New World Mobility Limited (CSLNW – now known as CSL Holdings Limited) business commenced immediately following completion of HKT's acquisition last May. In the several months that followed, we announced our three-brand strategy for mobile services and re-launched the brands as 1O1O, csl., and SUN Mobile (a joint venture with Telecom Digital Holdings Limited) for different segments of customers. We have also rationalized the retail channels, simplified the pricing plans, and embarked on the integration of the networks. We will continue the network integration and enhancement work in 2015 in order to further improve network service quality both in terms of coverage and data speed, while unlocking operational synergies and saving costs. It is management's view that we are on track with the CSLNW integration and that the staff of HKT and the new colleagues from CSLNW have worked together to produce an excellent start to the integration process.

In addition to operating the largest mobile retail network in Hong Kong with more than 100 outlets across the three brands, HKT also has a very substantial amount of radio spectrum after the acquisition, which we have put to good use for the benefit of customers. Always at the forefront of the industry, csl. announced in December the upgrade of its mobile network to 4G LTE-Advanced at 300Mbps download speed – the only one in the market, and a substantial step-up from the previous top network speed of 150Mbps. By adopting a new technology that delivers greater volumes of data at faster speeds, csl. aggregates two blocks of contiguous spectrum in the 1800MHz and 2600MHz bands to deliver mobile broadband network speed of up to 300Mbps for compatible Cat 6 terminal devices. Again, this demonstrates both the leading position of HKT across all business lines and evidences the benefits flowing from the CSLNW acquisition.

Customers in certain New Territories districts and commuters on the MTR's new West Island Line have been able to enjoy this higher-speed network since last December. In addition, the new MTR stations, namely Sai Yung Pun, HKU and Kennedy Town stations, will also be powered by csl.'s 1,000Mbps Wi-Fi on concourses and platforms. In the next phase the LTE-A 300Mbps network upgrade will cover Ma On Shan, Sai Kung and Kowloon West in early 2015, and then progressively to other parts of Hong Kong through 2015.

Shaping the future of mobile communications through our continuous technology innovation and investment, we launched Hong Kong's first Voice over LTE (VoLTE) service for 4G customers in May. It was also the world's first commercial launch of the latest standard VoLTE technology (3GPP standard Release 10-based) which enables a totally seamless handover of voice calls from 4G to 3G coverage. VoLTE users can enjoy faster voice call set-up and clearer sound, better video call quality, and instant switching between voice and video calls.

For customers' greater convenience and enjoyment, csl. offers a wide range of mobile apps. For instance, in October it collaborated with leading travel agency Wing On Travel to launch Hong Kong's first app that enables users to make real-time air-ticket and hotel reservations with instant confirmation. During the World Cup Brazil 2014, we enabled customers to purchase in-app a pass to watch live matches through a dedicated app.

Apart from useful apps, we also aim to delight our customers continuously. Being a premium service brand, 1O1O became the Official Mobile Network of THE PHANTOM OF THE OPERA Hong Kong season which straddled the year-end. 1O1O Central, our Hong Kong Island flagship store, was transformed into a gallery for the magnificent costumes from the musical for customers and the public. To provide luxurious lifestyle experiences, the 1O1O Centre in Tsim Sha Tsui presented a public exhibition of Leica cameras in December, as well as travel photography workshops exclusively for 1O1O customers.

BROADBAND GROWTH CONTINUES

The fixed broadband business experienced intensified competition last year, especially in the second half. Despite this development, we continued to register an encouraging increase in the number of customers enjoying genuine fiber-to-the-home (FTTH) service, which at the year-end already exceeded half a million. HKT has a market-leading position as our fiber infrastructure has already been installed within buildings accounting for 87% of all households in Hong Kong and our ability to actually supply customers with FTTH service now surpasses 80% of households.

Competition is unlikely to ease off in the new year. Our strategy as the premier service provider in Hong Kong continues to focus on a superior technical service with enhanced levels of customer service and more value-added features – all at a fair price. At the same time, HKT can leverage on its network strengths and market leadership to further tap into new streams of business. One of these areas has been in the provision of Smart Living and related services, as high-speed fiber connection and technology advancement are reshaping daily life. At the retail level, we have reached out to more consumers since the opening of HKT's first Smart Living Store at the HomeSquare shopping mall in Shatin earlier last year to complement our showrooms at HKT stores.

SERVING THE PUBLIC AND COMMERCIAL SECTORS

In the school segment, HKT has been assisting a considerable number of public sector schools to build their Wi-Fi infrastructure. These schools are out of the 100 schools that are qualified under the Government's Support Scheme for e-Learning in Schools to enhance their Wi-Fi infrastructure to cater for the need of using e-textbooks and e-learning resources in class. It is expected the scheme will be extended to more schools in due course.

Elsewhere, HKT's commercial business reported satisfactory performance despite the fact that the business sector remained cautious about telecom spending amid a softer economy. To retain and grow our performance despite adverse market conditions is testament to our reliability, excellent account servicing and innovative offerings.

The acquisition of CSLNW has augmented HKT's unrivalled ability to offer large corporate and SMEs (small- and medium-sized enterprises) a range of end-to-end fixed-mobile integration (FMI) solutions. These services include secure call recording, instant business continuity plan activation from fixed lines to mobile numbers, and extension of secure private fixed network to remote locations. Using our secure cloud platform, FMI also enables corporate instant messaging, mobile office with cloud-based office applications and storage, and business process mobilization to boost enterprise productivity.

RAISING GLOBAL CONNECTIVITY CAPACITY AND CAPABILITY

HKT's international connectivity business under PCCW Global continued to expand its network coverage and enrich its service capabilities by entering into new interconnection agreements or strengthening existing relationships with operators in various parts of the world.

Early last year, PCCW Global joined a consortium of prominent international service providers in building a high capacity cable system known as AAE-1 (Asia, Africa Europe-1) connecting Hong Kong, other parts of Asia, the Middle East, Africa and Europe. Construction of the submarine system is on course for projected completion in 2016, when it will become a major high capacity cable system linking all of the major Southeast Asian nations to Africa and Europe via the Middle East.

PCCW Global has also raised its network security capability through the acquisition before conclusion of the year of Crypteia Networks, a Europe-based company offering innovative security-as-a-service solutions to help organizations detect and respond to the new breed of cyber threats. PCCW Global will offer Crypteia solutions as part of its managed network services portfolio to its customers worldwide.

HKT's knowledge and proven expertise in Smart Living also makes PCCW Global a partner of choice for overseas operators who are interested in developing an enhanced quality of life and an energy efficient living environment for their people. In October, PCCW Global announced collaboration with du, the fastest growing telecom operator in the United Arab Emirates, to offer smart home services across the UAE.

A SPECTACULAR JOURNEY FOR CUSTOMERS

Through its "Here To Serve" campaign, HKT has been re-asserting its objective to remain the pre-eminent customer-focused service provider. To show our appreciation of the support of our customers, HKT launched a new unified loyalty and rewards program across its services in December – The Club.

The Club offers prestigious membership tier benefits that are meticulously selected to meet various lifestyle and entertainment needs. It comprises three main components: The Concierge, The Rewards and The Applause. The Concierge offers top tier members the ultimate convenience of personalized services to enhance their lifestyle enjoyment and assist in their daily miscellaneous needs. These benefits include Personal Assistant service for bookings on restaurants, events, overseas travel, etc; Personal IT Manager; Home Network Consultant; Personal Wellness Consultant; and priority service at our shops and service centers. Secondly, The Rewards are offered via a Clubpoint scheme – eligible spending on HKT services will earn Clubpoints which are redeemable for HKT services and other merchandise and merchant offers. Thirdly, The Applause brings members exclusive events and special entertainment from time to time.

The Club was launched at an iconic location of The Wheel, the new attraction which stands 60 meters tall at the Central waterfront. HKT is the official and exclusive partner for advertising and promotion activities within the site of the observation wheel, which is built and operated by wheel expert Swiss AEX. HKT also provides telecommunications services at The Wheel – including free Wi-Fi on the gondolas.

During the Christmas and New Year holidays, HKT organized for our customers a week-long Christmas fun fair and a large-scale New Year's Eve countdown at The Wheel. Both events were well received, attracting tens of thousands of customers and their family and friends.

SOCIALLY RESPONSIBLE CORPORATE CITIZEN

HKT has not only offered The Wheel to entertain our customers, as part of our Corporate Social Responsibility commitments we held an activity day shortly after the opening of The Wheel for several hundred children and their families from partnering non-governmental organizations and schools, so they could be among the first to enjoy the ride.

HKT has also voluntarily disclosed its carbon footprint data for inclusion into the Environment Protection Department's Carbon Footprint Repository. The repository, launched last December, is an online platform for disclosure by listed companies in Hong Kong and for sharing of carbon management experiences. HKT and parent company PCCW Limited are among 64 first-mover companies joining the repository, and the only two companies in the telecommunications segment.

HKT's effort on energy savings has been recognized in a city-wide contest organized by Friends of the Earth (HK). We won the championship in the Biggest Units Saver Award of the Power Smart Contest in 2013 by the implementation of high energy efficient network equipment and the replacement of air-cooled chillers with water-cooled chillers, which reduced 6% of electricity consumption at our exchange centers over a two-year period. We are pleased that further reductions in the past year earned us another top accolade in the 2014 contest.

OUTLOOK

The acquisition of CSLNW has firmly established HKT as the leading telecom service provider in Hong Kong in not only fixed line and broadband, but also mobile communications. HKT has re-defined and re-launched its mobile brands and embarked on integration of the networks in order to create a stronger business proposition and to unlock the operational synergies anticipated. Encouraged by the initial success in the past few months, the management team will continue its efforts to unlock more synergies which are expected to result in more significant customer and shareholder benefits in the coming 12 to 18 months.

As a pillar of HKT, the fixed broadband business will continue to excel with high-speed fiber connections and services such as Smart Living, which ride on HKT's network capability and differentiate the company as a customer-centric operator.

Another growth driver is international connectivity, which has reported successive periods of healthy growth. The prospect remains positive in view of continued and emerging demands for data and voice communications globally including some new routes.

The Hong Kong economy which slowed down in 2014 will likely face further challenges in the new year in the face of an uncertain global outlook. The management team believes that we have been strengthening HKT's position across all lines of business and that we have reason to be cautiously optimistic in terms of HKT's future prospects – but we are acutely aware of the need to monitor and respond swiftly to any changes of the external environment during 2015.

Alex Arena
Group Managing Director
February 10, 2015

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

LI Tzar Kai, Richard
Executive Chairman

Mr Li, aged 48, was appointed the Executive Chairman and an Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Executive Committee and a member of the Nomination Committee of the HKT Board. Mr Li has also been an Executive Director and the Chairman of PCCW Limited (PCCW) since August 1999, the Chairman of PCCW's Executive Committee and a member of the Nomination Committee of the board of directors of PCCW. He is also the Chairman and Chief Executive of the Pacific Century Group, an Executive Director and the Chairman of Pacific Century Premium Developments Limited (PCPD), the Chairman of PCPD's Executive Committee, a member of PCPD's Remuneration Committee and Nomination Committee, the Chairman and an Executive Director of Singapore-based Pacific Century Regional Developments Limited (PCRD), and the Chairman of PCRD's Executive Committee.

Mr Li is a Non-Executive Director of The Bank of East Asia, Limited. He is also a member of the Center for Strategic and International Studies' International Councillors' Group in Washington, D.C., and a member of the Global Information Infrastructure Commission. Mr Li was awarded the Lifetime Achievement Award by the Cable & Satellite Broadcasting Association of Asia in November 2011.

Alexander Anthony ARENA
Group Managing Director

Mr Arena, aged 63, has been the Group Managing Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. He is also a member of HKT's Executive Committee and holds directorships in various Group companies. Mr Arena is primarily responsible for the overall corporate management, planning, operation and development of the Group. Mr Arena is also a Non-Executive Director of Pacific Century Regional Developments Limited. Prior to the spin-off and separate listing of HKT, Mr Arena was an Executive Director of PCCW Limited (PCCW) from August 1999 to November 2011 and the Group Managing Director of PCCW from April 2007 to November 2011. He was also the Group Chief Financial Officer of PCCW from June 2002 to April 2007. Mr Arena was also the Deputy Chairman of PCCW's Executive Committee, a member of PCCW's Regulatory Compliance Committee, an Executive Director and Deputy Chairman of Pacific Century Premium Developments Limited (PCPD) and a member of PCPD's Executive Committee prior to November 2011.

Prior to joining the Pacific Century Group in 1998, Mr Arena was a Special Policy Adviser to the Hong Kong Government from 1997 to 1998. From 1993 to 1997, he was the Director-General of Telecommunications at the Office of the Telecommunications Authority (OFTA) of Hong Kong, as well as a member of the Broadcasting Authority of Hong Kong. Before taking up his post at OFTA, Mr Arena was appointed by the Hong Kong Government to plan a reform program for the liberalization of Hong Kong's telecommunications sector. Prior to his appointment to the Hong Kong Government, he served as an inaugural member of the Australian Telecommunications Authority for four years. Mr Arena has led an extensive career in public administration, specializing in high technology and infrastructure industries. From a practicing radio/communications engineer to a public policy maker, his experience spans such diverse areas as commercialization of government-owned business enterprises and deregulation in the aviation, transport, telecommunications and postal industries.

Mr Arena completed a bachelor's degree in electrical engineering from the University of New South Wales, Australia in 1972 and graduated in 1973. He completed an MBA at the University of Melbourne, Australia in 1977 and graduated in 1978. He has been a Fellow of the Hong Kong Institution of Engineers since 2001.

HUI Hon Hing, Susanna
Group Chief Financial Officer
Ms Hui, aged 50, has been the Group Chief Financial Officer of HKT Limited (HKT) and an Executive Director of HKT and HKT Management Limited, the trustee-manager of the HKT Trust, since November 2011. She is also a member of HKT's Executive Committee and holds directorships in various Group companies. Ms Hui is primarily responsible for overseeing the financial matters of the Group. Ms Hui is and has been the Group Chief Financial Officer of PCCW Limited (PCCW) since April 2007 and an Executive Director of PCCW since May 2010. She is also a member of PCCW's Executive Committee. Prior to her appointment as the Group Chief Financial Officer of PCCW, she was the Director of Group Finance of the PCCW Group from September 2006 to April 2007, and the Director of Finance of the PCCW Group with responsibility for the telecommunications services sector and regulatory accounting. Ms Hui was also the Chief Financial Officer of Pacific Century Premium Developments Limited from July 2009 to November 2011.

Prior to joining Cable & Wireless HKT Limited (which was subsequently acquired by PCCW) in September 1999, Ms Hui was the chief financial officer of a listed company engaged in hotel and property investment and management.

Ms Hui graduated with a bachelor's degree in social sciences from the University of Hong Kong with first class honours. She is a qualified accountant and a member of both the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

NON-EXECUTIVE DIRECTORS

Peter Anthony ALLEN
Non-Executive Director
Mr Allen, aged 59, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is an Executive Director and the Group Managing Director of Pacific Century Regional Developments Limited, an Executive Director and the Chief Financial Officer of the Pacific Century Group and Senior Advisor to PCCW Limited (PCCW). Mr Allen was an Executive Director of PCCW from August 1999 to November 2011.

Prior to joining the Pacific Century Group, Mr Allen joined KPMG in 1976 before taking up an appointment at Occidental International Oil Incorporated in 1980. In 1983, he joined Schlumberger Limited and worked in various countries holding key management positions. In 1989, he moved to Singapore as Regional Financial Director of the Vestey Group.

Mr Allen joined Boustead Singapore Limited as the Group Operations Controller in 1992 before taking up an appointment with Morgan Grenfell Investment Management (Asia) Limited as a Director and Chief Operating Officer in 1995. He joined the Pacific Century Group in 1997.

Mr Allen was educated in England and graduated from the University of Sussex with a degree in economics. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow Member of CPA Australia and a Fellow of the Institute of Singapore Chartered Accountants.

CHUNG Cho Yee, Mico
Non-Executive Director
Mr Chung, aged 54, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. Mr Chung was a Non-Executive Director of PCCW Limited (PCCW) from May 2010 to November 2011. He was an Executive Director of PCCW from November 1996 who was responsible for merger and acquisition activities and was re-designated to a Non-Executive Director of PCCW in May 2010. He joined the Pacific Century Group in March 1999.

Mr Chung graduated from University College, University of London in the United Kingdom, with a law degree in 1983.

Mr Chung is currently the Chairman and an Executive Director of CSI Properties Limited which he joined in 2004. He is also an Independent Non-Executive Director of HKC (Holdings) Limited. He was an Independent Non-Executive Director of CIAM Group Limited between March 9, 2001 and May 31, 2008.

LU Yimin
Non-Executive Director
Mr Lu, aged 51, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Remuneration Committee, Nomination Committee and Executive Committee of the Board. Mr Lu became a Non-Executive Director of PCCW Limited (PCCW) in May 2008 and the Deputy Chairman of the board of directors of PCCW in November 2011. He is a member of PCCW's Executive Committee.

Mr Lu is an Executive Director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a Director and President of China United Network Communications Limited and a Director and President of China United Network Communications Corporation Limited.

Mr Lu joined China Network Communications Group Corporation (CNC) in December 2007, serving as senior management. Prior to joining CNC, Mr Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005.

Mr Lu is a researcher level senior engineer and has extensive experience in government administration and business management. He graduated from Shanghai Jiao Tong University in 1985 with a bachelor's degree in computer science and then was awarded a master's degree in public administration by the John F. Kennedy School of Government at Harvard University in the United States.

LI Fushen

Non-Executive Director

Mr Li, aged 52, was appointed a Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in November 2011. He is a member of HKT's Regulatory Compliance Committee. Mr Li became a Non-Executive Director of PCCW Limited (PCCW) in July 2007. He is a member of the Nomination Committee of the board of directors of PCCW.

Mr Li is an Executive Director and Chief Financial Officer of China Unicom (Hong Kong) Limited (Unicom HK). He is a Director, Vice President and Chief Accountant of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a Director of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited.

He served as a Senior Vice President of Unicom HK from February 2009 to March 2011. He served as an Executive Director of China Netcom Group Corporation (Hong Kong) Limited (CNC HK) since January 2007 and as Chief Financial Officer of CNC HK since September 2005. He served as Joint Company Secretary of CNC HK from December 2006 to March 2008. Since October 2005, he has served as Chief Accountant of China Network Communications Group Corporation (CNC). From October 2003 to August 2005, he served as General Manager of the Finance Department of CNC. From November 2001 to October 2003, he served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company.

Mr Li graduated from the Australian National University with a master's degree in management in 2004, and from the Jilin Engineering Institute with a degree in engineering management in 1988. Mr Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

Srinivas Bangalore GANGAIAH (aka BG Srinivas)

Non-Executive Director

Mr Srinivas, aged 54, was appointed a Non-Executive Director of HKT Limited and HKT Management Limited, the trustee-manager of the HKT Trust, in August 2014. He was appointed as an Executive Director and Group Managing Director of PCCW Limited (PCCW) in July 2014. He is also a member of PCCW's Executive Committee.

Mr Srinivas holds a degree in mechanical engineering from Bangalore University, India, and has participated in executive programs at Wharton Business School, US, and Indian Institute of Management Ahmedabad (IIMA), India. Prior to joining PCCW, Mr Srinivas has worked for the last 15 years with Infosys Group, where his last role was the President and Whole-time Director of Infosys Limited. He has also acted as Chairman of the board of Infosys Lodestone and a member of the board of Infosys Sweden. Prior to that, Mr Srinivas worked for 14 years with Asea Brown Boveri Group, where he held several leadership positions. Mr Srinivas has been on the panel of judges for the European Business Awards (EBA) for three consecutive years and is a frequent speaker at academic institutions such as INSEAD and Saïd Business School, Oxford.

For identification only

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor CHANG Hsin Kang, FREng, GBS, JP

Independent Non-Executive Director

Professor Chang, aged 74, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Regulatory Compliance Committee, a member of HKT's Audit Committee, Remuneration Committee and Nomination Committee, and a member of the Trustee-Manager's Audit Committee. Professor Chang was an Independent Non-Executive Director of PCCW Limited from October 2000 to November 2011.

Professor Chang became an Honorary Professor of Tsinghua University in September 2007, and (Honorary Professor and) Yeh-Lu Xun Chair Professor at Peking University in February 2008. He was the President and University Professor of City University of Hong Kong from 1996 to 2007. Prior to that, he was the Dean of the School of Engineering at the University of Pittsburgh in the United States from 1994 to 1996, Founding Dean of the School of Engineering at Hong Kong University of Science and Technology from 1990 to 1994 and the Chairperson of the Department of Biomedical Engineering at the University of Southern California in the United States from 1985 to 1990.

Professor Chang is a Foreign Member of the Royal Academy of Engineering of the United Kingdom, a Member of International Eurasian Academy of Sciences; and Chevalier dans l'Ordre National de la Lègion d'Honneur as well as Commandeur dans l'Ordre des Palmes Acadèmiques of France. He was appointed Justice of the Peace in July 1999 and awarded the Gold Bauhinia Star by the Hong Kong Government in July 2002.

Professor Chang obtained his bachelor's degree in civil engineering from the National Taiwan University, a master's degree in structural engineering from Stanford University in the United States and a doctorate in biomedical engineering from Northwestern University in the United States.

Professor Chang is also an Independent Non-Executive Director of Hon Kwok Land Investment Company, Limited, Brightoil Petroleum (Holdings) Limited and Nanyang Commercial Bank, Limited.

The Hon Raymond George Hardenbergh SEITZ

Independent Non-Executive Director

Mr Seitz, aged 74, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is the Chairman of HKT's Remuneration Committee and a member of HKT's Audit Committee and the Trustee-Manager's Audit Committee. Mr Seitz was an Independent Non-Executive Director of PCCW Limited (PCCW) from February 2005 to November 2011. He was a Non-Executive Director of PCCW from October 2000 and was re-designated as an Independent Non-Executive Director in February 2005.

Mr Seitz was Vice-Chairman of Lehman Brothers International from April 1995 to April 2003 and was United States Ambassador to Great Britain from 1991 to 1994. Prior to that, Mr Seitz acted as the United States Assistant Secretary of State for Europe from 1989 to 1991 and Minister at the United States Embassy in London from 1984 to 1989. He was Non-Executive Chairman and a member of the Special Committee of Sun-Times Media Group, Inc. from July 2003 to January 2009.

Sunil VARMA

Independent Non-Executive Director

Mr Varma, aged 71, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited (Trustee-Manager), the trustee-manager of the HKT Trust, in November 2011. He is also the Chairman of both HKT's Audit Committee and the Trustee-Manager's Audit Committee and a member of HKT's Nomination Committee, Remuneration Committee and Regulatory Compliance Committee.

Mr Varma is a certified chartered accountant as well as a cost and management accountant. He has extensive working experience of over 40 years including with Price Waterhouse Management Consultants and the IBM Consulting Group, specializing in management and business-problem consulting. He was the partner responsible for establishing and developing the Price Waterhouse consulting practice in Indonesia and was the Head of the Price Waterhouse consulting practice in Hong Kong until 1994. Mr Varma was the Vice President and Principal responsible for the IBM Consulting Group in India between 1996 and 1998. He was the Interim Chief Financial Officer and Managing Director of Asia Online, Ltd. from 1999 to 2000 and was the Interim Chief Financial Officer of HCL – Perot Systems in India in 2003.

Mr Varma had previously worked in a number of countries in Africa and the Asia Pacific region including Australia, India, Indonesia, Hong Kong, Thailand and the PRC. He advised large multinationals as well as domestic companies in the areas of corporate governance, financial management, organizational strengthening, efficiency improvement, process re-engineering and business systems. He is experienced in a cross-section of industries including financial services, information technology, energy, fertilizers and steel. He had previously conducted several large assignments for public sector organizations, funded by World Bank, Asian Development Bank and other multi-lateral funding agencies.

Mr Varma is also a Director and the Chairman of Audit Committee of various companies in India including International Asset Reconstruction Company Pvt. Ltd. and a Director and the Chairman of Audit and Risk Management Committee of Shriram City Union Finance Ltd. in India. Mr Varma was a Director and a member of the Audit Committee of Shriram EPC Ltd. and a Director and the Chairman of the Audit Committee of Vistaar Livelihood Finance Pvt. Ltd. in India.

Mr Varma obtained his Bachelor of Arts degree in mathematics and economics from Punjab University in July 1962. He has been an Associate member of the Institute of Chartered Accountants of India since August 1966 and a Fellow since June 1972, and an associate member of the Institute of Cost and Management Accountants of India since September 1975.

Aman MEHTA

Independent Non-Executive Director

Mr Mehta, aged 68, was appointed an Independent Non-Executive Director of HKT Limited (HKT) and HKT Management Limited, the trustee-manager of the HKT Trust, in May 2014. He is the Chairman of HKT's Nomination Committee. Mr Mehta has been an Independent Non-Executive Director of PCCW Limited (PCCW) since February 2004. He is also the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee of the board of directors of PCCW.

Mr Mehta joined the board of directors of PCCW following a distinguished career in the international banking community. Mr Mehta held the position of Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited (HSBC) until December 2003, when he retired.

Born in India in 1946, Mr Mehta joined HSBC group in Bombay in 1967. After a number of assignments throughout HSBC group, he was appointed Manager – Corporate Planning at HSBC's headquarters in Hong Kong in 1985. After a three-year posting to Riyadh in Saudi Arabia, he was appointed Group General Manager in 1991, and General Manager – International the following year, with responsibility for overseas subsidiaries. He subsequently held senior positions in the United States, overseeing HSBC group companies in the Americas and later becoming responsible for HSBC's operations in the Middle East.

In 1998, Mr Mehta was reappointed General Manager – International, after which he became Executive Director International. In 1999, he was appointed Chief Executive Officer, a position he held until retirement.

Following his retirement in December 2003, Mr Mehta took up residence in New Delhi. He is an Independent Director on the board of several public companies and institutions in India and internationally. He is an Independent Non-Executive Director of Vedanta Resources plc in the United Kingdom, Tata Consultancy Services Limited, Godrej Consumer Products Limited, Jet Airways (India) Limited and Wockhardt Limited in Mumbai, India; and Max India Limited and Cairn India Limited in New Delhi, India. He was an Independent Non-Executive Director of Emaar MGF Land Limited and an Independent Director on the Supervisory Board of ING Groep N.V., a Netherlands company.

Mr Mehta is also a member of the Governing Board of Indian School of Business, Hyderabad, and a member of the Advisory Panel of Prudential Financial Inc. in the United States.

COMBINED CORPORATE GOVERNANCE REPORT

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company") (the "Company Board") present the corporate governance report of the HKT Trust and the Company on a combined basis for the year ended December 31, 2014.

The HKT Trust is a trust constituted on November 7, 2011 under the laws of Hong Kong and managed by the Trustee-Manager. The HKT Trust, the Trustee-Manager and the Company are committed to maintaining a high standard of corporate governance, the principles of which serve to uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business and to ensure that their affairs are conducted in accordance with applicable laws and regulations.

We have adopted a Corporate Responsibility Policy and a Corporate Social Responsibility Policy that apply to all employees, including directors and officers, of the Company and its subsidiaries (collectively the "HKT Limited Group").

The Corporate Responsibility Policy sets out standards for the way in which employees should conduct the HKT Limited Group's business in the following areas: civic responsibilities, equal opportunities, preservation of company information and property, privacy of personal data, prevention of bribery, conflicts of interest and ensuring health and safety at work. This policy also describes procedures to enable employees to raise concerns with management and directors on a confidential basis.

The Corporate Social Responsibility Policy sets out standards for the way in which the HKT Limited Group should conduct its business to enhance its positive contribution to society and the environment.

CORPORATE STRATEGY

The Company, in conjunction with its listed parent PCCW Limited ("PCCW"), offers Hong Kong's only integrated quadruple-play service with market leading positions in the fixed-line, broadband Internet and pay-TV businesses, as well as a rapidly growing mobile business. The Company's strategy for generating and preserving unitholder value is to invest prudently in its technology and service platforms to ensure that its fixed-line business remains the market leader, its broadband offering delivers increasingly fast connectivity and its mobile network coverage and speed continuously improve – and overall to invest in our people to continuously improve the quality of service that the Company provides to its customers. The Company generates and preserves value by investing in these businesses and pursuing growth opportunities. Its strategy is to continue to be the market leader via innovation and broadening its service offerings in the telecommunications and ancillary businesses.

CORPORATE GOVERNANCE CODE

The HKT Trust and the Company are both listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and are both subject to the provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The HKT Trust is not a separate legal entity, and can only act through the Trustee-Manager.

Pursuant to the Deed of Trust constituting the HKT Trust dated November 7, 2011 (the "Trust Deed"), (i) the Trustee-Manager shall be responsible for compliance by the HKT Trust with the Listing Rules applicable to the HKT Trust and other relevant rules and regulations; (ii) the Company shall be responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant rules and regulations; and (iii) each of the Trustee-Manager and the Company must co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.

The HKT Trust and the Company have adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as the corporate governance code of the HKT Trust and the Company. The HKT Trust and the Company have applied the principles and complied with all relevant code provisions of the CG Code during the year ended December 31, 2014. The requirement to establish a separate Remuneration Committee with written terms of reference for the Trustee-Manager under the Code Provision B.1.2 of the CG Code is not relevant to the Trustee-Manager as its directors are not entitled to any remuneration under the Trust Deed, and therefore has not been complied with. In addition, given the unique circumstances of the HKT Trust i.e., the fact that the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals, the establishment of a separate Nomination Committee for the Trustee-Manager as required by Code Provision A.5.1 of the CG Code is not relevant to the Trustee-Manager, and therefore has not been complied with.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The HKT Trust and the Company have adopted their own code of conduct regarding securities transactions, namely the HKT Trust and HKT Limited Code of Conduct for Securities Transactions (the "HKT Code"), which applies to all directors and employees of the Company on terms no less exacting than the required standard indicated by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES *(CONTINUED)*

Having made specific inquiries of all directors of the Trustee-Manager and the Company, confirmations have been received of compliance with the required standard set out in the Model Code and the HKT Code during the accounting period covered by this annual report.

The interests and short positions of the directors and the chief executives of the Company and the Trustee-Manager in the share stapled units (the "Share Stapled Units") and underlying Share Stapled Units jointly issued by the HKT Trust and the Company; and the shares, underlying shares and debentures of the Company and its associated corporations have been disclosed in the Combined Report of the Directors on pages 42 to 58 of this annual report.

BOARDS OF DIRECTORS

Pursuant to the Trust Deed, the directors of the Trustee-Manager shall at all times comprise the same individuals who serve as directors of the Company; no person shall serve as a director of the Trustee-Manager unless he also serves as a director of the Company at the same time; and no person shall serve as a director of the Company unless he also serves as a director of the Trustee-Manager at the same time.

The Company Board is responsible for the management of the Company. Key responsibilities of the Company Board include formulation of the overall strategies of the HKT Limited Group, the setting of management targets and supervision of management performance. The Company Board confines itself to making broad policy decisions and exercising a number of reserved powers as mentioned below, delegating responsibility for more detailed considerations to the Company's Executive Committee under the leadership of the Company's Executive Chairman:

- those functions and matters as set out in the terms of reference of various committees (as amended from time to time) for which Company Board approval must be sought from time to time;
- those functions and matters for which Company Board approval must be sought in accordance with the HKT Limited Group's internal policy (as amended from time to time);
- consideration and approval of the HKT Limited Group's financial statements in the interim and annual reports of the Company and the HKT Trust, and announcements of interim and annual results;
- consideration of dividend policy and dividend amounts; and
- monitoring of the corporate governance of the HKT Limited Group in order to comply with applicable rules and regulations.

The Trustee-Manager Board is responsible for the administration of the HKT Trust (including but not limited to the safe custody of all the property and rights of any kind whatsoever which are held on trust for the registered holders of Share Stapled Units (the "Trust Property")). Key responsibilities of the Trustee-Manager Board include taking all reasonable steps to ensure that the Trustee-Manager discharges its duties under the Trust Deed, ensuring that the Trust Property is properly accounted for, and being answerable to the registered holders of units of the HKT Trust for the application or misapplication of any Trust Property. The Trustee-Manager Board confines itself to making broad policy decisions and exercising a number of reserved powers as below:

- those functions and matters as set out in the terms of reference of various committees (where applicable) (as amended from time to time) for which Trustee-Manager Board approval must be sought from time to time;
- consideration and approval of the financial statements of the HKT Trust and the Trustee-Manager in the interim and annual reports of the Company and the HKT Trust, and announcements of interim and annual results;
- consideration of distributions to registered holders of Share Stapled Units; and
- monitoring of the corporate governance of the HKT Trust in order to comply with applicable rules and regulations.

The Executive Chairman of the Company is Li Tzar Kai, Richard and the Group Managing Director of the Company is Alexander Anthony Arena. The role of the Executive Chairman is separate from that of the Group Managing Director. The Executive Chairman is responsible for overseeing the function of the Company Board while the Group Managing Director is responsible for managing the business of the Company. Details of the composition of the Company Board and the Trustee-Manager Board are set out in the Combined Report of the Directors on pages 42 to 58 of this annual report.

BOARDS OF DIRECTORS *(CONTINUED)*

All directors of the Company and the Trustee-Manager have full and timely access to all relevant information, including monthly updates from the management, regular reports from the various Company Board committees and Trustee-Manager Board committee(s) and briefings on significant legal, regulatory or accounting issues affecting the HKT Limited Group and the HKT Trust respectively. Directors may take independent professional advice, which will be paid for by the Company or the Trustee-Manager, as appropriate.

The directors of the Company and the Trustee-Manager acknowledge their responsibility for preparing the financial statements of, respectively, the Company and the HKT Trust and the Trustee-Manager for each financial year, which give a true and fair view of the state of affairs of the HKT Limited Group and the HKT Trust and the Trustee-Manager (as the case may be), and of the profit and cash flows of the HKT Limited Group and the HKT Trust and the Trustee-Manager (as the case may be), for the year in accordance with Hong Kong Financial Reporting Standards, the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended December 31, 2014, the directors of the Company and the Trustee-Manager have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; stated the reasons for any significant departure from applicable accounting standards in Hong Kong; and have prepared the financial statements on a going-concern basis. The directors of the Company and the Trustee-Manager are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of, respectively, the HKT Limited Group and the HKT Trust and the Trustee-Manager. The statements of the external auditor relating to its reporting responsibilities on the financial statements of the HKT Limited Group and the HKT Trust, and the Trustee-Manager are respectively set out in the Independent Auditor's Reports on pages 59 and 154 of this annual report.

As at the date of this report, each of the Company Board and the Trustee-Manager Board is comprised of 12 directors including three executive directors, five non-executive directors and four independent non-executive directors. At least one-third of the Company Board and the Trustee-Manager Board are independent non-executive directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. Biographies of all the directors of the Company and the Trustee-Manager are set out on pages 14 to 18 of this annual report. The relationships (including financial, business, family or other material or relevant relationships), if any, among members of the Company Board and the Trustee-Manager Board have also been disclosed in the Combined Report of the Directors of this annual report.

The Company and the Trustee-Manager have arranged appropriate directors and officers liability insurance cover for their directors and officers.

Biographies of senior corporate executives and heads of business units of the HKT Limited Group as at the date of this report are available on the Company's website (www.hkt.com).

The Company Board and the Trustee-Manager Board each held five meetings in 2014. The combined annual general meeting of unitholders of the HKT Trust and shareholders of the Company (the "Combined Annual General Meeting") was held on May 8, 2014 with the attendance of the external auditor to answer questions.

BOARDS OF DIRECTORS *(CONTINUED)*

The attendance of individual directors at the Company Board and the Company Board committee meetings, the Trustee-Manager Board and the Trustee-Manager Board committee meetings, and the Combined Annual General Meeting held in 2014 is set out in the following table:

	Meetings attended/eligible to attend in 2014 *(Note 1)*						
	Company				Trustee-Manager		Combined Annual General Meeting
Directors	Board	Audit Committee *(Note 2)*	Nomination Committee *(Note 2)*	Remuneration Committee *(Note 2)*	Board	Audit Committee *(Note 3)*	
Executive Directors							
Li Tzar Kai, Richard *(Executive Chairman)*	5/5	N/A	3/3	N/A	5/5	N/A	1/1
Alexander Anthony Arena *(Group Managing Director)*	5/5	N/A	N/A	N/A	5/5	N/A	1/1
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*	5/5	N/A	N/A	N/A	5/5	N/A	1/1
Non-Executive Directors							
Peter Anthony Allen	5/5	N/A	N/A	N/A	5/5	N/A	1/1
Chung Cho Yee, Mico	4/5	N/A	N/A	N/A	4/5	N/A	1/1
Lu Yimin	3/5	N/A	2/3	1/1	3/5	N/A	1/1
Li Fushen	4/5	N/A	N/A	N/A	4/5	N/A	1/1
BG Srinivas *(Note 4)*	2/2	N/A	N/A	N/A	2/2	N/A	N/A
Independent Non-Executive Directors							
Professor Chang Hsin Kang	5/5	3/3	2/3	1/1	5/5	3/3	1/1
The Hon Raymond George Hardenbergh Seitz *(Chairman of the Company's Remuneration Committee)*	5/5	3/3	N/A	1/1	5/5	3/3	1/1
Sunil Varma *(Note 5)* *(Chairman of the Audit Committee of the Company and the Trustee-Manager)*	5/5	3/3	3/3	N/A	5/5	3/3	1/1
Aman Mehta *(Note 6)* *(Chairman of the Company's Nomination Committee)*	2/3	N/A	1/1	N/A	2/3	N/A	N/A
Sir Rogerio (Roger) Hyndman Lobo *(Note 7)* *(Ex-Chairman of the Company's Nomination Committee)*	2/2	1/1	2/2	1/1	2/2	1/1	1/1

Notes:

1. Directors may attend meetings in person or by means of telephone or other audio communications equipment in accordance with the Company's Amended and Restated Articles of Association (the "Company Articles") and the Trustee-Manager's Articles of Association (the "Trustee-Manager Articles").

2. For the composition of and the number of meetings held in 2014 by the Audit Committee, Nomination Committee and Remuneration Committee of the Company, please refer to the section headed "**Committees of the Company Board**" in this Combined Corporate Governance Report.

3. For the composition of and the number of meetings held in 2014 by the Audit Committee of the Trustee-Manager, please refer to the section headed "**Committee of the Trustee-Manager Board**" in this Combined Corporate Governance Report.

4. Appointed as a non-executive director of the Company and the Trustee-Manager with effect from August 5, 2014.

5. Appointed as a member of the Company's Remuneration Committee with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014.

6. Appointed as an independent non-executive director of the Company and the Trustee-Manager and as the Chairman of the Nomination Committee of the Company with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014.

7. Retired from the Company Board and the Trustee-Manager Board with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014. Following his retirement, Sir Roger ceased to be the Chairman of the Company's Nomination Committee, a member of the Company's Audit Committee and Remuneration Committee, and the Audit Committee of the Trustee-Manager.

BOARDS OF DIRECTORS *(CONTINUED)*

The Company and the Trustee-Manager together have received from each of their independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and consider that all four independent non-executive directors as at the date of this report, namely, Professor Chang Hsin Kang, The Hon Raymond George Hardenbergh Seitz, Sunil Varma and Aman Mehta are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules. Please also refer to the details disclosed in the section headed "**Independent Non-Executive Directors**" in the Combined Report of the Directors of this annual report.

According to the Company Articles and the Trust Deed, any director so appointed by the Company Board either to fill a casual vacancy or as an addition shall also be appointed as a director of the Trustee-Manager. Any director of the Company and the Trustee-Manager appointed to fill the casual vacancy shall hold office only until the next following general meeting of the Company or the next following general meeting of the HKT Trust (as the case may be) and shall be eligible for re-election at that meeting. In the case as an addition, the additional director of the Company and the Trustee-Manager shall hold office only until the next following annual general meeting of the Company or the next following annual general meeting of the HKT Trust (as the case may be) and shall be eligible for re-election at that meeting.

In addition, according to the Company Articles, at each annual general meeting of the Company no less than one-third of the directors for the time being shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Apart from retirement by rotation pursuant to the Company Articles, each non-executive director has a term of three years. Under the Trust Deed, the directors of the Trustee-Manager must be the same individuals who serve as directors of the Company at the relevant time; no person shall serve as a director of the Trustee-Manager unless he also serves as a director of the Company at the same time; and the office of a director of the Trustee-Manager shall be vacated if the relevant person ceases to be a director of the Company. These provisions are also contained in the Trustee-Manager Articles. Accordingly, the retirement by rotation provisions are also applicable, indirectly, in relation to the Trustee-Manager Board. Therefore, no director of either the Company or the Trustee-Manager will remain in office for a term of more than three years. The directors who shall retire from office of both the Company and the Trustee-Manager at the forthcoming Combined Annual General Meeting are set out in the Combined Report of the Directors on pages 42 to 58 of this annual report.

The Company Board and the Trustee-Manager Board have a structured process to evaluate the performance of all directors on an annual basis including a self-evaluation questionnaire which is completed by all directors and presented to the respective Audit Committee and board meetings for discussion in order to review each director's performance of his/her responsibilities and his/her time commitment to the Company's affairs in accordance with the relevant requirements of the CG Code, and to identify areas for improvement. This process has confirmed that the performance of the directors and the time commitment in discharging their duties as directors of the Company and the Trustee-Manager for the year ended December 31, 2014 were generally satisfactory.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

As part of an ongoing process of director's training, the directors of the Company and the Trustee-Manager are updated on the latest developments in applicable legal and regulatory requirements, and the operations, organization and governance policies of the Company. They are provided with written materials from time to time to develop and refresh their knowledge and skills. The company secretary also organizes and arranges seminars on relevant topics which will count towards continuous professional development training. During the year, all directors of the Company and the Trustee-Manager, namely, Li Tzar Kai, Richard, Alexander Anthony Arena, Hui Hon Hing, Susanna, Peter Anthony Allen, Chung Cho Yee, Mico, Lu Yimin, Li Fushen, BG Srinivas, Professor Chang Hsin Kang, The Hon Raymond George Hardenbergh Seitz, Sunil Varma, Aman Mehta and Sir Rogerio (Roger) Hyndman Lobo, received updates on the Company's business and relevant rules and regulations. Additionally, the company secretary also organized training seminars presented by qualified professionals on legal and regulatory issues for the directors. The Company and the Trustee-Manager together have received confirmation from all directors of their respective training records for the year ended December 31, 2014.

COMMITTEES OF THE COMPANY BOARD

The Company Board has established the following committees with defined terms of reference. The terms of reference of the Remuneration Committee, the Nomination Committee and the Audit Committee are of no less exacting terms than those set out in the CG Code. To further reinforce its independence, the Audit Committee has been structured to only include independent non-executive directors, and the Nomination Committee, the Regulatory Compliance Committee and the Remuneration Committee have been structured to include a majority of independent non-executive directors.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Executive Committee and Sub-committees

The Executive Committee of the Company Board operates as a general management committee with overall delegated authority from the Company Board. The Executive Committee determines HKT Limited Group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors management performance. The Executive Committee reports through the Executive Chairman to the Company Board.

The Executive Committee comprises four members, including three executive directors and one non-executive director.

The members of the Executive Committee are:
Li Tzar Kai, Richard *(Chairman)*
Alexander Anthony Arena
Hui Hon Hing, Susanna
Lu Yimin

Reporting to the Executive Committee are sub-committees comprising executive and non-executive directors and members of senior management who oversee all key operating and functional areas within the HKT Limited Group. Each sub-committee has defined terms of reference covering its authority and duties, meets frequently and reports to the Executive Committee on a regular basis.

The *Finance and Management Committee* was established with effect from the date of listing of the Share Stapled Units on November 29, 2011 (the "Listing Date"). This committee is chaired by the Group Managing Director and meets on a regular basis to review management and strategic matters across the HKT Limited Group and to set overall financial objectives and policies.

The *Operational Committee* was established with effect from the Listing Date. This committee is chaired by the Group Managing Director and meets on a regular basis to direct all of the business units/operations within the HKT Limited Group.

The *Controls and Compliance Committee*, which reports to the Finance and Management Committee, was established with effect from the Listing Date. It comprises senior members of the Company's Group Finance, Group Legal Office and Corporate Secretariat, Group Communications, Group Internal Audit and Risk Management departments. The committee reviews procedures for the preparation of the Company's and the HKT Trust's annual and interim reports and the corporate policies of the HKT Limited Group from time to time to ensure compliance with the various rules and obligations imposed under the Listing Rules.

The *Corporate Social Responsibility Committee*, which reports to the Finance and Management Committee, was established with effect from the Listing Date. It comprises senior members of the Company's Group Communications, Group Human Resources, Corporate Secretariat, Group Finance, Risk Management, Network Operations and Group Purchasing and Supplies departments, as well as management from individual business units. The committee ensures that the Company operates in a manner that enhances its positive contribution to society and the environment.

The *PRC Business Development Committee* was established with effect from the Listing Date to advise on possible opportunities for expanding the HKT Limited Group's operations in the PRC and monitoring the use of funds allocated and approved by the Company Board or relevant committee for PRC opportunities.

Remuneration Committee

The Company Board established the Remuneration Committee with effect from the Listing Date. The primary objective of the Remuneration Committee is to ensure that the Company is able to attract, retain and motivate high-caliber employees who will underpin the success of the Company and enhance the value of the Company for the benefit of the registered holders of Share Stapled Units.

The Remuneration Committee is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors and senior management of the Company and other members of the HKT Limited Group and determining, with delegated responsibility, the remuneration packages of individual executive directors and senior management of the Company and to make recommendations to the Company Board on the remuneration of non-executive directors. In addition, the committee provides effective supervision and administration of the HKT Trust and the Company's Share Stapled Units option scheme(s), as well as other Share Stapled Units incentive schemes. The committee's authority and duties are set out in written terms of reference that are posted on the Company's website at www.hkt.com/ir and the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") at www.hkexnews.hk. This committee comprises four members, including three independent non-executive directors and one non-executive director, and is chaired by an independent non-executive director.

The members of the Remuneration Committee during the year and up to the date of this annual report are:
The Hon Raymond George Hardenbergh Seitz *(Chairman)*
Professor Chang Hsin Kang
Sunil Varma
(appointed with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)
Lu Yimin
Sir Rogerio (Roger) Hyndman Lobo
(retired with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Remuneration Committee *(continued)*

The objective of the Company's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Company Board, market rates and factors such as each director's workload, responsibility and job complexity are taken into account. The following factors are considered when determining the remuneration packages of directors and senior management of the Company:

- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

During the review process, no individual director is involved in decisions relating to his own remuneration.

The Remuneration Committee met once in 2014. The attendance of individual directors at the committee meeting is set out on page 22 of this annual report.

The work performed by the Remuneration Committee during 2014 included:

(i) review of the terms of reference of the Remuneration Committee;

(ii) review and approval of the 2013 bonus payment to executive directors and senior management;

(iii) review and recommendation of the non-executive directors' fees for 2014 to the Company Board for approval;

(iv) review and approval of the 2014 performance bonus scheme for executive directors and senior management and key performance indicators;

(v) consideration and approval of the 2013 discretionary incentive scheme for staff and the share awards made to staff pursuant to the Company's share stapled units award schemes; and

(vi) review and approval of the remuneration packages of executive directors.

Emoluments of directors of the Company for 2014 have been reviewed by the Remuneration Committee at its meeting held on February 10, 2015.

Details of emoluments of each director and senior executives are set out in the consolidated financial statements of the HKT Trust and the Company on pages 94 to 96 of this annual report.

Nomination Committee

The Company Board established the Nomination Committee with effect from the Listing Date. The primary duties of the Nomination Committee are to make recommendations to the Company Board on the appointment and re-appointment of directors, structure, size and composition of the Company Board to ensure fair and transparent procedures for the appointment and re-appointment of directors to the Company Board, and to maintain a balance of skills, experience and diversity of perspectives on the Company Board which are appropriate to the requirements of the Company's business. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The Company Board adopted a board diversity policy (the "Board Diversity Policy") with the primary objective of enhancing the effectiveness of the Company Board and the Trustee-Manager Board and their corporate governance standard. The Company recognizes the importance of having a diverse team of board members, which is an essential element in maintaining a competitive advantage. The Nomination Committee has been delegated the authority to review and assess the diversity of the Company Board and its skills and experience by way of consideration of a number of factors including but not limited to, gender, age, cultural and educational background, and professional experience. The committee will give consideration to the Board Diversity Policy when identifying and selecting suitably qualified candidates. The Board Diversity Policy will be reviewed on a regular basis.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Nomination Committee *(continued)*

The Nomination Committee comprises five members, including one executive director, one non-executive director and three independent non-executive directors. It is chaired by an independent non-executive director.

The members of the Nomination Committee during the year and up to the date of this annual report are:
Aman Mehta *(Chairman)*
(appointed with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)
Professor Chang Hsin Kang
Li Tzar Kai, Richard
Lu Yimin
Sunil Varma
Sir Rogerio (Roger) Hyndman Lobo *(Ex-Chairman)*
(retired with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)

The Nomination Committee met three times in 2014. The attendance of individual directors at the committee meetings is set out on page 22 of this annual report.

The work performed by the Nomination Committee during 2014 included:

(i) review of the terms of reference of the Nomination Committee;

(ii) review and assessment of the independence of all independent non-executive directors of the Company;

(iii) consideration and recommendation to the Company Board for approval the list of retiring directors of the Company and the Trustee-Manager for re-election at the Combined Annual General Meeting on May 8, 2014;

(iv) annual review of the structure, size and composition of the Company Board, with a recommendation to the Company Board for approval; and

(v) recommendation to the Company Board for approval the appointments of Aman Mehta as an independent non-executive director and BG Srinivas as a non-executive director of the Company after consideration of a range of diversity perspectives.

At its meeting held on February 10, 2015, the Nomination Committee reviewed the structure, size and composition of the Company Board and formed the view that the Company Board has a balance of skills, knowledge, experience, expertise and diversity of perspectives appropriate to the business requirements of the Company for the year ended December 31, 2014.

Audit Committee

The Company Board established the Audit Committee with effect from the Listing Date. The Audit Committee is responsible for ensuring objectivity and credibility of financial reporting of the HKT Limited Group, and that the directors have exercised the care, diligence and skills prescribed by law when presenting the HKT Limited Group's results to the registered holders of Share Stapled Units. The Audit Committee is also responsible for ensuring an effective system of internal controls of the HKT Limited Group is in place and ensuring good corporate governance standards and practices are maintained. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To ensure the external auditors' independence, procedures have been adopted by the Audit Committee for the monitoring and approval of all audit and permitted non-audit services to be undertaken by the external auditors.

At its meeting held on February 10, 2015, the Audit Committee recommended to the Company Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the Company for the financial year 2015 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor.

The Audit Committee comprises three members, each of them is an independent non-executive director.

The members of the Audit Committee during the year and up to the date of this annual report are:
Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
The Hon Raymond George Hardenbergh Seitz
Sir Rogerio (Roger) Hyndman Lobo
(retired with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)

The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2014, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 22 of this annual report.

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Audit Committee *(continued)*

The work performed by the Audit Committee during 2014 included:

(i) review of the terms of reference of the Audit Committee;

(ii) review of the annual report and the annual results announcement for the year ended December 31, 2013, with a recommendation to the Company Board for approval;

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the year ended December 31, 2013, with a recommendation to the Company Board for the re-appointment of PricewaterhouseCoopers at the 2014 Combined Annual General Meeting;

(iv) review of the annual report on effectiveness of internal controls under the CG Code, with a recommendation to the Company Board for approval;

(v) review and approval of continuing connected transactions (including PricewaterhouseCoopers' report on their review of continuing connected transactions) for the year ended December 31, 2013;

(vi) consideration and approval of the Group Internal Audit reports (including the internal audit workplan);

(vii) review of the interim report and the interim results announcement for the six months ended June 30, 2014, with a recommendation to the Company Board for approval;

(viii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Audit Committee and the management representation letter for the six months ended June 30, 2014;

(ix) review and approval of the audit strategy memorandum for the year ending December 31, 2014;

(x) review and approval of PricewaterhouseCoopers' pre-year end report for the Audit Committee;

(xi) review and approval of the audit engagement letters for the year ending December 31, 2014;

(xii) consideration and approval of 2014 audit and non-audit services and the 2015 annual budget for audit and non-audit services;

(xiii) review of the corporate governance report and practices for the year ended December 31, 2013 and the corporate governance disclosure for the six months ended June 30, 2014, with a recommendation to the Company Board for approval;

(xiv) review of the results of the directors' self-evaluation exercise for the year ended December 31, 2013 in order to review each director's performance of his/her responsibilities and his/her time commitment to the Company's affairs and to identify areas for improvement, with a recommendation to the Company Board for approval;

(xv) review and monitoring of training and continuous professional development for directors and senior management; and

(xvi) review of the HKT Code, with a recommendation to the Company Board for approval the proposed amendments.

Subsequent to the year end, the Audit Committee reviewed the annual report and the annual results announcement for the year ended December 31, 2014, with a recommendation to the Company Board for approval.

For the year ended December 31, 2014, fees paid and payable to the auditors of the HKT Limited Group amounted to approximately HK$11 million for audit services (2013: HK$9 million) and HK$21 million for non-audit services (2013: HK$3 million). The non-audit services included the following:

Nature of service	HK$ million
Tax services	1
Other services	20
	21

COMMITTEES OF THE COMPANY BOARD *(CONTINUED)*

Regulatory Compliance Committee

The Regulatory Compliance Committee comprises three members, including two independent non-executive directors and one non-executive director. It reviews and monitors dealings primarily with the Hutchison Whampoa Group, the Cheung Kong Group and the Hong Kong Economic Journal Company Limited to ensure that all dealings with these entities are conducted on an arm's-length basis. The Regulatory Compliance Committee is chaired by an independent non-executive director. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The members of the Regulatory Compliance Committee during the year and up to the date of this annual report are:

Professor Chang Hsin Kang *(Chairman)*
(became the Chairman with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)
Sunil Varma
(appointed with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)
Li Fushen
Sir Rogerio (Roger) Hyndman Lobo *(Ex-Chairman)*
(retired with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)

COMMITTEE OF THE TRUSTEE-MANAGER BOARD

The Trustee-Manager Board has established an Audit Committee (the "Trustee-Manager Audit Committee") with defined terms of reference which are of no less exacting terms than those set out in the CG Code. To further reinforce its independence, the Trustee-Manager Audit Committee has been structured to only include independent non-executive directors of the Trustee-Manager.

The Trustee-Manager Audit Committee is responsible for ensuring objectivity and credibility of financial reporting of the HKT Trust and the Trustee-Manager, and that the directors of the Trustee-Manager have exercised the care, diligence and skills prescribed by law when presenting the HKT Trust's and the Trustee-Manager's results to the registered holders of Share Stapled Units. The Trustee-Manager Audit Committee is also responsible for ensuring an effective system of internal controls of each of the HKT Trust and the Trustee-Manager (where applicable) is in place and ensuring good corporate governance standards and practices are maintained. The committee's authority and duties are set out in written terms of reference that are posted on the websites of the Company and the HKEx.

The Trustee-Manager Audit Committee's responsibilities also include the appointment, compensation and supervision of the external auditors. To ensure the external auditors' independence, procedures have been adopted by the Trustee-Manager Audit Committee for the monitoring and approval of all audit and permitted non-audit services to be undertaken by the external auditors.

At its meeting held on February 10, 2015, the Trustee-Manager Audit Committee recommended to the Trustee-Manager Board the re-appointment of PricewaterhouseCoopers to conduct statutory audits in respect of the HKT Trust and the Trustee-Manager for the financial year 2015 at the forthcoming Combined Annual General Meeting. Pursuant to the terms of the Trust Deed, the HKT Trust, the Company and the Trustee-Manager must have the same auditor. Furthermore, the fees and expenses of the auditors of the HKT Trust and the Trustee-Manager in connection with the audit of the financial statements of the HKT Trust and the Trustee-Manager are to be paid out of the Trust Property (as defined in the Trust Deed). The Trust Deed also requires that the membership of the Trustee-Manager Audit Committee must be the same as the membership of the Audit Committee of the Company Board.

The Trustee-Manager Audit Committee comprises three members, each of them is an independent non-executive director of the Trustee-Manager and a member of the Audit Committee of the Company Board.

The members of the Trustee-Manager Audit Committee during the year and up to the date of this annual report are:

Sunil Varma *(Chairman)*
Professor Chang Hsin Kang
The Hon Raymond George Hardenbergh Seitz
Sir Rogerio (Roger) Hyndman Lobo
(retired with effect from the conclusion of the Combined Annual General Meeting held on May 8, 2014)

The Trustee-Manager Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, the internal auditor and external auditor and reviews their reports. During 2014, the committee met three times. The attendance of individual directors at the committee meetings is set out on page 22 of this annual report.

COMMITTEE OF THE TRUSTEE-MANAGER BOARD *(CONTINUED)*

The Trustee-Manager Audit Committee reviewed and noted the resolutions passed and matters approved at the Audit Committee of the Company, whose work performed during 2014 is set out under the heading of "**Audit Committee**" on pages 26 and 27 of this annual report, and where appropriate, approved those items specific to the HKT Trust and the Trustee-Manager. Other work performed by the Trustee-Manager Audit Committee during 2014 included:

(i) review of the terms of reference of the Trustee-Manager Audit Committee;

(ii) review of the financial information of the Trustee-Manager for the year ended December 31, 2013, with a recommendation to the Trustee-Manager Board for approval;

(iii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Trustee-Manager Audit Committee and the management representation letter for the year ended December 31, 2013, with a recommendation to the Trustee-Manager Board for the re-appointment of PricewaterhouseCoopers at the 2014 Combined Annual General Meeting;

(iv) review and approval of continuing connected transactions (including PricewaterhouseCoopers' report on their review of continuing connected transactions) for the year ended December 31, 2013;

(v) consideration and approval of the Group Internal Audit reports (including the internal audit workplan);

(vi) review of the financial information of the Trustee-Manager for the six months ended June 30, 2014, with a recommendation to the Trustee-Manager Board for approval;

(vii) review and approval of PricewaterhouseCoopers' confirmation of independence, its report for the Trustee-Manager Audit Committee and the management representation letter for the six months ended June 30, 2014;

(viii) review and approval of the audit strategy memorandum for the year ending December 31, 2014;

(ix) review and approval of PricewaterhouseCoopers' pre-year end report for the Trustee-Manager Audit Committee; and

(x) review and approval of the audit engagement letters for the year ending December 31, 2014.

Subsequent to the year end, the Trustee-Manager Audit Committee reviewed the annual report and the annual results announcement of the HKT Trust (including the financial information of the Trustee-Manager) for the year ended December 31, 2014, with a recommendation to the Trustee-Manager Board for approval.

For the year ended December 31, 2014, fees paid and payable to the auditors of the HKT Trust and the Trustee-Manager amounted to approximately HK$0.043 million for audit services (2013: HK$0.04 million) and no non-audit services (2013: nil) have been provided by the auditors.

The Trustee-Manager has not established a separate Remuneration Committee and Nomination Committee as its directors are not entitled to any remuneration under the Trust Deed, and as the Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager must always be the same individuals given the unique circumstances of the HKT Trust.

INTERNAL CONTROLS

The directors of the Company and the Trustee-Manager are responsible for maintaining and reviewing the effectiveness of the internal controls of the HKT Limited Group and the HKT Trust, respectively, including material financial, operational and compliance controls, risk management functions and particularly the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting function. Appropriate policies and control procedures have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the HKT Limited Group's performance are appropriately identified and managed. In the case of the Company, such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud.

INTERNAL CONTROLS *(CONTINUED)*

The directors, through the Trustee-Manager Audit Committee, the Audit Committee and other committees of the Company Board (as the case may be), are kept regularly apprised of significant risks that may impact on the HKT Trust and the HKT Limited Group's performance. Group Internal Audit reports to the Audit Committee of the Company Board and the Trustee-Manager Audit Committee at each regularly scheduled meeting throughout the year, the results of their activities during the preceding period, including any significant matters pertaining to the adequacy and effectiveness of internal controls including, but not limited to any indications of failings or material weaknesses in those controls. The Risk Management department reviews significant aspects of risk management for the HKT Trust and the companies within the HKT Limited Group and makes recommendations to the Trustee-Manager Audit Committee, the Audit Committee and other committees of the Company Board (as the case may be) from time to time, including amongst other things, the appropriate mitigation and/or transfer of identified risk.

The Audit Committee of the Company and the Trustee-Manager Audit Committee (to the extent required) have established and oversee a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties have the right and the ability to report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee of the Company and the Trustee-Manager Audit Committee have designated the Head of Group Internal Audit to receive on their behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations, arising from any investigation to him for consideration by the Audit Committee of the Company and the Trustee-Manager Audit Committee.

The Company has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its internal controls and risk management functions, including requiring the management of the Company to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Company and the Company's business practices in the future.

Group Internal Audit provides independent assurance to the Company Board and the Trustee-Manager Board and executive management of the Company on the adequacy and effectiveness of internal controls for the HKT Limited Group and the HKT Trust. The Head of Group Internal Audit reports directly to the Chairman of the Audit Committee, the Group Managing Director and the Group Chief Financial Officer of the Company.

Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the HKT Trust and the HKT Limited Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Trustee-Manager Audit Committee and the Audit Committee and key members of executive and senior management of the Company, respectively. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Trustee-Manager Audit Committee and the Audit Committee and executive and senior management of the Company (as the case may be) periodically.

During 2014, Group Internal Audit conducted selective reviews of the effectiveness of the system of internal controls of the HKT Limited Group and the HKT Trust over financial, operational, compliance controls and risk management functions with emphasis on information technology, data privacy, systems contingency planning and procurement. Additionally, heads of major business and corporate functions of the HKT Limited Group were required to undertake a control self-assessment of their key controls. These results were assessed by Group Internal Audit and reported to the Audit Committee of the Company, which then reviewed and reported the same to the Company Board. The Audit Committee of the Company, the Trustee-Manager Audit Committee, the Company Board and the Trustee-Manager Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the HKT Limited Group and the HKT Trust (including the Trustee-Manager) and considered the internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting function.

In addition to the review of internal controls undertaken within the Company, from time to time, management and/or the directors will engage professional third parties to assess and comment on the adequacy of the system of internal controls and, where appropriate, recommendations will be adopted and enhancements to the internal controls will be made.

Further information on internal controls adopted and implemented by the HKT Limited Group and the HKT Trust is available under the "Corporate governance" section on the Company's website.

POTENTIAL CONFLICTS OF INTERESTS

The Trustee-Manager and the Company have instituted the following procedures or established the following measures to deal with potential conflicts of interest issues, including:

- if a director has a conflict of interest in a matter to be considered by the Company Board or the Trustee-Manager Board which the relevant board has determined to be material, the matter will be dealt with by a physical board meeting rather than a written resolution and independent non-executive directors who, and whose close associates, have no material interest in the transaction must be present at that board meeting.

- in respect of matters in which PCCW and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by PCCW and/or its subsidiaries to the Company Board or the Trustee-Manager Board to represent PCCW's (or its subsidiaries') interests will abstain from voting. In such matters, the quorum must comprise a majority of the independent non-executive directors and must exclude any nominee directors appointed by PCCW and/or its subsidiaries.

- where matters concerning the HKT Limited Group relate to transactions entered into or to be entered into with a related party of the Trustee-Manager (which would include relevant associates thereof), the HKT Trust or the Company, the relevant board is required to consider the terms of the transactions to satisfy itself that the transactions are conducted on normal commercial terms, are not prejudicial to the interests of the HKT Limited Group and the registered holders of Share Stapled Units and are in compliance with applicable requirements of the Listing Rules and the Trust Deed relating to the transaction in question. The relevant board will also review these contracts to ensure that they comply with the provisions of the Listing Rules and the Trust Deed relating to connected transactions (as may be amended from time to time) as well as any other guidelines as may from time to time be prescribed by the Securities and Futures Commission of Hong Kong and the Stock Exchange that are applicable to the HKT Trust.

- a regime for all of the existing continuing connected transactions has already been established, with the on-going requirement that all such transactions (other than those qualifying for an exemption) be reviewed and reported on annually by the independent non-executive directors and the external auditor.

- the HKT Trust and the Company has each established an Audit Committee in accordance with the Listing Rules from among the independent non-executive directors to, amongst other matters, regularly review their respective internal control systems and internal audit reports.

COMPANY SECRETARY

Ms Philana WY Poon has been appointed as the Group General Counsel and Company Secretary of HKT Limited and the HKT Trust since the listing of the Share Stapled Units on the Stock Exchange. She is also the Group Company Secretary of PCCW.

During the year ended December 31, 2014, Ms Poon has received no less than 15 hours of relevant professional training to refresh her skills and knowledge.

RIGHTS OF REGISTERED HOLDERS OF SHARE STAPLED UNITS

Procedures to convene an extraordinary general meeting of the Company and the HKT Trust and put forward proposals at general meetings

General meetings of the Company shall be convened on the written requisition of any two or more shareholders of the Company deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists holding as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 5% or, thereafter, one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

The Trustee-Manager may (and the Trustee-Manager shall at the request in writing of registered holders of units of the HKT Trust holding not less than 5% of the units of the HKT Trust for the time being in issue and outstanding) at any time convene a meeting of registered holders of units at such time or place in Hong Kong.

Shareholders of the Company and the registered holders of units of the HKT Trust can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Company Articles and the Trust Deed when making any requisitions or proposals for transaction at the general meetings of the Company and the HKT Trust.

Procedures by which enquiries may be put to the Company Board and the Trustee-Manager Board

Registered holders of Share Stapled Units may send enquiries to the Company Board and the Trustee-Manager Board in writing c/o the Corporate Secretariat with the following contact details:

Attention:	Company Secretary
Address:	39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
Fax:	+852 2962 5926
Email:	cosec@hkt.com

INVESTOR RELATIONS AND COMMUNICATION WITH THE REGISTERED HOLDERS OF SHARE STAPLED UNITS

The HKT Trust (including the Trustee-Manager) and the Company are committed to promoting and maintaining effective communication with the registered holders of Share Stapled Units (both individual and institutional) and other stakeholders. A Unitholders Communication Policy has been adopted for ensuring the HKT Trust and the Company provide the registered holders of Share Stapled Units and the investment community with appropriate and timely information about the HKT Trust and the Company in order to enable the registered holders of Share Stapled Units to exercise their rights in an informed manner, and to allow the investment community to engage actively with the HKT Trust and the Company. The Unitholders Communication Policy is available on the Company's website (www.hkt.com/ir).

The Company and the Trustee-Manager encourage two-way communications with institutional and retail investors, as well as financial and industry analysts. Extensive information on the Company's and the HKT Trust's activities is provided in the annual and interim reports and circulars which are sent to the registered holders of Share Stapled Units and are also available on the websites of the Company and the HKEx.

In addition to dispatching this annual report to the registered holders of Share Stapled Units, financial and other information relating to the HKT Limited Group, the HKT Trust and the Trustee-Manager and their respective business activities have been disclosed on the Company's website in order to promote effective communication.

Regular dialogue takes place with the investment community. Inquiries from individuals on matters relating to their holdings in the Share Stapled Units, the business of the Company and the HKT Trust are welcomed and dealt with in an informative and timely manner. The relevant contact information is provided on page 164 of this annual report and also provided in the Unitholders Communication Policy.

Registered holders of Share Stapled Units are encouraged to attend the forthcoming Combined Annual General Meeting of the Company and the HKT Trust for which at least 20 clear business days' notice is given. At the meeting, directors will be available to answer questions on the business relating to HKT Limited Group and external auditor will be available to answer questions about the conduct of the audit, the preparation and content of the auditor's reports, the accounting policies and the auditor independence.

CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2014, there were no changes to the Company Articles and the Trust Deed. An up to date consolidated version of these constitutional documents are available on the websites of the Company and the HKEx.

On behalf of the boards of
HKT Limited and
HKT Management Limited
(in its capacity as the trustee-manager of the HKT Trust)

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, February 10, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Total revenue increased by 26% to HK$28,823 million
- Total EBITDA increased by 30% to HK$10,242 million
- Profit attributable to holders of Share Stapled Units increased by 22% to HK$2,991 million; basic earnings per Share Stapled Unit was 42.20 HK cents
- Adjusted funds flow for the year increased by 16% to HK$3,354 million; adjusted funds flow per Share Stapled Unit was 47.32 HK cents based on the weighted average number of Share Stapled Units during the year of 2014 while adjusted funds flow per Share Stapled Unit was 44.30 HK cents based on the number of Share Stapled Units in issue as at December 31, 2014
- Final distribution per Share Stapled Unit of 23.30 HK cents

MANAGEMENT REVIEW

We are pleased to report a set of strong financial results by HKT for the year ended December 31, 2014, which was underpinned by solid performance of its various lines of business and also significantly the consolidation of the results of CSL New World Mobility Limited (now known as CSL Holdings Limited, "CSL") since the completion of the acquisition in May 2014.

Total revenue for the year ended December 31, 2014 increased by 26% to HK$28,823 million and total EBITDA for the year was HK$10,242 million, an increase of 30% over the previous year. This growth was driven mainly by the CSL acquisition and reflected the subsequent scale benefits of the Mobile business, as well as steady growth in the Telecommunications Services ("TSS") business.

Profit attributable to holders of Share Stapled Units, even after taking into account the additional interest costs related to the CSL acquisition, was HK$2,991 million, an increase of 22% over the previous year. Basic earnings per Share Stapled Unit was 42.20 HK cents.

Adjusted funds flow for the year ended December 31, 2014 reached HK$3,354 million, an increase of 16% over the previous year. Adjusted funds flow per Share Stapled Unit was 47.32 HK cents based on the weighted average number of Share Stapled Units for the purpose of basic earnings per Share Stapled Unit during the year of 2014 ("weighted average number of Share Stapled Units"), while adjusted funds flow per Share Stapled Unit was 44.30 HK cents based on the number of Share Stapled Units in issue as at December 31, 2014.

The board of directors of the Trustee-Manager has recommended the payment of a final distribution of 23.30 HK cents per Share Stapled Unit for the year ended December 31, 2014. This brings the 2014 full-year distribution to 44.30 HK cents per Share Stapled Unit (comprising 21 HK cents as interim and 23.30 HK cents as final distribution) representing the complete payout of the adjusted funds flow per Share Stapled Unit based on the enlarged Share Stapled Units in issue after the rights issue completed in July 2014.

OUTLOOK

The acquisition of CSL has firmly established HKT as the leading telecom service provider in Hong Kong in not only fixed line and broadband, but also mobile communications. HKT has re-defined and re-launched its mobile brands and embarked on integration of the networks in order to create a stronger business proposition and to unlock the operational synergies anticipated. Encouraged by the initial success in the past few months, the management team will continue its efforts to unlock more synergies which are expected to result in more significant customer and shareholder benefits in the coming 12 to 18 months.

As a pillar of HKT, the fixed broadband business will continue to excel with high-speed fiber connections and services such as Smart Living, which ride on HKT's network capability and differentiate the company as a customer-centric operator.

Another growth driver is international connectivity, which has reported successive periods of healthy growth. The prospect remains positive in view of continued and emerging demands for data and voice communications globally including some new routes.

The Hong Kong economy which slowed down in 2014 will likely face further challenges in the new year in the face of an uncertain global outlook. The management team believes that we have been strengthening HKT's position across all lines of business and that we have reason to be cautiously optimistic in terms of HKT's future prospects – but we are acutely aware of the need to monitor and respond swiftly to any changes of the external environment during 2015.

FINANCIAL REVIEW BY SEGMENT

For the year ended December 31, HK$ million	2013 H1 *(Note 7)*	2013 H2 *(Note 7)*	2013 Full Year *(Note 7)*	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ (Worse) y-o-y
Revenue							
TSS	9,200	10,051	19,251	**9,565**	**10,348**	**19,913**	3%
Mobile	1,790	1,581	3,371	**2,910**	**6,040**	**8,950**	165%
Other Businesses	318	370	688	**286**	**278**	**564**	(18)%
Eliminations	(237)	(241)	(478)	**(241)**	**(363)**	**(604)**	(26)%
Total revenue	11,071	11,761	22,832	**12,520**	**16,303**	**28,823**	26%
Cost of sales	(4,901)	(5,216)	(10,117)	**(5,333)**	**(6,720)**	**(12,053)**	(19)%
Operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net	(2,331)	(2,483)	(4,814)	**(2,762)**	**(3,766)**	**(6,528)**	(36)%
EBITDA[1]							
TSS	3,510	3,725	7,235	**3,594**	**3,768**	**7,362**	2%
Mobile	453	427	880	**965**	**2,182**	**3,147**	258%
Other Businesses	(124)	(90)	(214)	**(134)**	**(133)**	**(267)**	(25)%
Total EBITDA[1]	3,839	4,062	7,901	**4,425**	**5,817**	**10,242**	30%
TSS EBITDA[1] Margin	*38%*	*37%*	*38%*	***38%***	***36%***	***37%***	
Mobile EBITDA[1] Margin	*25%*	*27%*	*26%*	***33%***	***36%***	***35%***	
Total EBITDA[1] Margin	*35%*	*35%*	*35%*	***35%***	***36%***	***36%***	
Depreciation and amortization	(2,399)	(2,301)	(4,700)	**(2,350)**	**(3,536)**	**(5,886)**	(25)%
Gain/(Loss) on disposal of property, plant and equipment, net	10	3	13	**(2)**	**–**	**(2)**	NA
Other gains, net	49	35	84	**41**	**58**	**99**	18%
Finance costs, net	(458)	(375)	(833)	**(452)**	**(672)**	**(1,124)**	(35)%
Share of results of an associate and joint ventures	6	44	50	**2**	**(31)**	**(29)**	NA
Profit before income tax	1,047	1,468	2,515	**1,664**	**1,636**	**3,300**	31%

ADJUSTED FUNDS FLOW

For the year ended December 31, HK$ million	2013 H1	2013 H2	2013 Full Year	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ Worse) y-o-y
Total EBITDA[1]	3,839	4,062	7,901	**4,425**	**5,817**	**10,242**	30%
Less cash outflows in respect of:							
Customer acquisition costs and licence fees	(712)	(891)	(1,603)	**(770)**	**(2,032)**	**(2,802)**	(75)%
Capital expenditures[6]	(988)	(992)	(1,980)	**(1,135)**	**(1,375)**	**(2,510)**	(27)%
Adjusted funds flow before tax paid, net finance costs paid and changes in working capital	2,139	2,179	4,318	**2,520**	**2,410**	**4,930**	14%
Adjusted for:							
Tax payment	(107)	(224)	(331)	**(80)**	**(315)**	**(395)**	(19)%
Net finance costs paid	(239)	(450)	(689)	**(368)**	**(433)**	**(801)**	(16)%
Changes in working capital	(309)	(88)	(397)	**(482)**	**102**	**(380)**	4%
Adjusted funds flow[2]	1,484	1,417	2,901	**1,590**	**1,764**	**3,354**	16%
Annual adjusted funds flow per Share Stapled Unit (HK cents) (based on the weighted average number of Share Stapled Units)			Adjusted 43.43			**47.32**	
Annual adjusted funds flow per Share Stapled Unit (HK cents)[3]			45.21			**44.30**	

KEY OPERATING DRIVERS[4]

	2013 H1	2013 H2	**2014 H1**	**2014 H2**	Better/ (Worse) y-o-y
Exchange lines in service ('000)	2,651	2,651	**2,654**	**2,654**	0%
Business lines ('000)	1,242	1,242	**1,245**	**1,245**	0%
Residential lines ('000)	1,409	1,409	**1,409**	**1,409**	0%
Total broadband access lines ('000) (Consumer, business and wholesale customers)	1,567	1,567	**1,567**	**1,567**	0%
Retail consumer broadband subscribers ('000)	1,408	1,408	**1,408**	**1,404**	0%
Retail business broadband subscribers ('000)	128	130	**131**	**136**	5%
Traditional data (Exit Gbps)	2,276	2,967	**3,016**	**3,372**	14%
Retail IDD minutes (million minutes)	521	474	**431**	**397**	(17)%
Mobile subscribers ('000)	1,652	1,654	**4,512**	**4,585**	177%
Post-paid subscribers ('000)	1,017	1,019	**3,183**	**3,178**	212%
Prepaid subscribers ('000)	635	635	**1,329**	**1,407**	122%

Note 1 *EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in an associate and joint ventures, and the Group's share of results of an associate and joint ventures. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.*

Note 2 *Adjusted funds flow is defined as EBITDA less capital expenditures, customer acquisition costs and licence fees paid, taxes paid, finance costs and interest expense paid, and adjusted for interest income received and changes in working capital. It is not presented as a measure of leverage or liquidity in accordance with HKFRS and should not be considered as representing net cash flows or any other similar measures derived in accordance with HKFRS, or an alternative to cash flow from operations or a measure of liquidity. The Group's Adjusted Funds Flow is computed in accordance with the above definition using financial information derived from the Group's audited consolidated financial statements. The Adjusted Funds Flow may be used for debt repayment.*

Note 3 *Annual adjusted funds flow per Share Stapled Unit is calculated by dividing the adjusted funds flow for the year by the number of Share Stapled Units in issue as at the respective year end.*

Note 4 *Figures are stated as at the period end, except for International Direct Dial ("IDD") minutes which is the total for the period.*

Note 5 *Gross debt refers to the principal amount of short-term borrowings and long-term borrowings. Net debt refers to the principal amount of short-term borrowings and long-term borrowings minus cash and cash equivalents.*

Note 6 *Group capital expenditures represent additions to property, plant and equipment, and interests in leasehold land.*

Note 7 *During the year ended December 31, 2014, the Group completed an internal reorganization in connection with the acquisition of CSL Holdings Limited (formerly known as CSL New World Mobility Limited) and its subsidiaries. As a result, management has made changes to the Group's internal reporting that caused changes to reportable segments and segment presentation. The prior year ended December 31, 2013 segment information has been restated to conform with the revised presentation.*

Telecommunications Services

For the year ended December 31, HK$ million	2013 H1 (Note 7)	2013 H2 (Note 7)	2013 Full Year (Note 7)	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ (Worse) y-o-y
Local Telephony Services	1,680	1,754	3,434	**1,682**	**1,801**	**3,483**	1%
Local Data Services	3,140	3,320	6,460	**3,236**	**3,490**	**6,726**	4%
International Telecommunications Services	3,222	3,489	6,711	**3,465**	**3,538**	**7,003**	4%
Other Services	1,158	1,488	2,646	**1,182**	**1,519**	**2,701**	2%
TSS Revenue	9,200	10,051	19,251	**9,565**	**10,348**	**19,913**	3%
Cost of sales	(4,117)	(4,534)	(8,651)	**(4,301)**	**(4,638)**	**(8,939)**	(3)%
Operating costs before depreciation and amortization	(1,573)	(1,792)	(3,365)	**(1,670)**	**(1,942)**	**(3,612)**	(7)%
TSS EBITDA[1]	3,510	3,725	7,235	**3,594**	**3,768**	**7,362**	2%
TSS EBITDA[1] margin	*38%*	*37%*	*38%*	***38%***	***36%***	***37%***	

TSS revenue for the year ended December 31, 2014 increased by 3% to HK$19,913 million and EBITDA for the year increased by 2% to HK$7,362 million. The EBITDA margin remained relatively steady at 37% during the year.

Local Telephony Services. Local telephony services revenue increased slightly to HK$3,483 million for the year ended December 31, 2014, as compared to HK$3,434 million a year earlier. Total fixed lines in service at the end of December 2014 remained steady at 2,654,000. Average revenue per user ("ARPU") improved slightly and we will remain focused on growing ARPU in this challenging segment in order to maintain its contribution.

Local Data Services. Local data services revenue, comprising broadband network revenue and local data revenue, increased by 4% to HK$6,726 million for the year ended December 31, 2014. Faced with intensified competition last year especially in the second half, the broadband network business managed to exhibit a solid 6% revenue growth due to continued additions to our high speed fiber subscriber base and ARPU improvement. At the end of December 2014, there were 504,000 FTTH subscribers which represented an increase of 20% from a year earlier. The local data business recorded a slight increase of 1% during the year despite persistent pricing pressure and cautious spending by enterprise customers amid the lackluster economic conditions in Hong Kong.

International Telecommunications Services. International telecommunications services revenue for the year ended December 31, 2014 recorded another year of healthy growth, increasing by 4% to HK$7,003 million. This was attributable to the solid demand for wholesale voice and data connectivity services from international carrier and enterprise customers, as well as increased opportunities in Asia, the Middle East and Africa.

Other Services. Other services revenue primarily comprises revenue from the sales of network equipment and customer premises equipment ("CPE"), provision of technical and maintenance subcontracting services and contact centre services ("Teleservices"). Other services revenue for the year ended December 31, 2014 increased by 2% to HK$2,701 million on modest growth of the Teleservices business during the year.

Mobile

For the year ended December 31, HK$ million	2013 H1 *(Note 7)*	2013 H2 *(Note 7)*	2013 Full Year *(Note 7)*	**2014 H1**	**2014 H2**	**2014 Full Year**	Better/ (Worse) y-o-y
Mobile Services	1,346	1,280	2,626	**2,328**	**4,570**	**6,898**	163%
Handset Sales	444	301	745	**582**	**1,470**	**2,052**	175%
Mobile Revenue	1,790	1,581	3,371	**2,910**	**6,040**	**8,950**	165%
Mobile Services	440	401	841	**964**	**2,123**	**3,087**	267%
Handset Sales	13	26	39	**1**	**59**	**60**	54%
Mobile EBITDA[1]	453	427	880	**965**	**2,182**	**3,147**	258%
Mobile EBITDA[1] margin	*25%*	*27%*	*26%*	***33%***	***36%***	***35%***	
Mobile Services EBITDA[1] margin	*33%*	*31%*	*32%*	***41%***	***46%***	***45%***	

The Mobile business, which included the CSL results since May 2014, registered a 165% increase in total revenue to HK$8,950 million for the year ended December 31, 2014. Mobile services revenue increased by 163% to HK$6,898 million from HK$2,626 million a year earlier.

As the size of handset sales became significant after the CSL acquisition, these have been reclassified under the Mobile segment from the TSS segment. For the year under review, revenue from handset sales increased by 175% to HK$2,052 million from HK$745 million a year earlier. In addition to the acquisition effect, the increase was mainly driven by the launch of several popular handsets in the second half of 2014.

With a higher ARPU contribution from CSL, the post-paid exit ARPU improved by 4% to HK$219 as at the end of December 2014 from HK$210 a year earlier. As at December 31, 2014, the total subscriber base was 4,585,000, of which 3,178,000 were post-paid subscribers. Of these post-paid subscribers, approximately 79% were smart device users. The churn rate for post-paid subscribers was 1.5% in 2014.

For the year ended December 31, 2014, mobile data revenue increased by 124% and accounted for 68% of mobile services revenue for the year, while IDD and roaming revenue accounted for 19% of mobile services revenue for the year.

EBITDA for the year increased by 258% to HK$3,147 million, with the margin improving significantly to 35% from 26% a year earlier, reflecting the benefits of the enlarged scale of the Mobile business. More importantly, the EBITDA margin for mobile services increased to 45% from 32% a year ago.

HKT commenced the integration of CSL immediately following completion of the acquisition in May 2014, and shortly afterwards announced the new brands for different segments of customers, rationalized the retail network and adjusted the tariff plans. Integration of the networks has been ongoing. While the consolidated results in the second half of 2014 provide some insights into the benefits of the increased scale and rationalization of the operations, synergies arising from the acquisition are expected to be realized more fully in the coming 12 to 18 months.

Other Businesses

Other Businesses primarily comprised Unihub China Information Technology Company Limited (the "ZhongYing JV"), which provides network integration and related services to telecommunications operators in the PRC. Revenue from Other Businesses was HK$564 million for the year ended December 31, 2014, as compared to HK$688 million a year ago. In December 2014, the Group completed the disposal of its entire equity interest in the ZhongYing JV.

Eliminations

Eliminations were HK$604 million for the year ended December 31, 2014, as compared to HK$478 million a year ago. Eliminations mainly related to internal charges for telecommunications services consumed amongst HKT's business units.

Cost of Sales

Cost of sales for the year ended December 31, 2014 increased by 19% to HK$12,053 million, which was in line with the revenue growth during the year. Gross margin increased to 58% from 56% a year ago.

General and Administrative Expenses

During the year, operating costs before depreciation, amortization, and gain/(loss) on disposal of property, plant and equipment, net, ("operating costs") increased by 36% to HK$6,528 million largely due to the enlarged business scale following the CSL acquisition. Other contributing factors included inflationary pressure on staff costs and rental expenses. Operating costs to revenue ratio was 23%, as compared to 21% a year ago.

Depreciation and amortization expenses increased by 25% to HK$5,886 million driven by a 48% increase in depreciation expenses and a 7% increase in amortization expenses, largely due to the enlarged business scale following the CSL acquisition.

As a result, general and administrative expenses increased by 31% to HK$12,416 million for the year ended December 31, 2014.

EBITDA[1]

As a result of the steady performance in the TSS business and the contribution from the enlarged Mobile business following the CSL acquisition, overall EBITDA improved by 30% to HK$10,242 million for the year ended December 31, 2014. The EBITDA margin increased slightly to 36% from 35% a year ago.

Finance Costs, Net

Net finance costs for the year ended December 31, 2014 increased to HK$1,124 million from HK$833 million a year ago. The increase in net finance costs was attributable to the increase in borrowings as a result of the CSL acquisition. The acquisition was initially financed by a bridge loan which was subsequently refinanced with longer term banking facilities and completion of the rights issue in July 2014.

Income Tax

Income tax expense for the year ended December 31, 2014 was HK$242 million, as compared to HK$16 million a year ago, representing an effective tax rate of 7.3%. The increase in the tax expense is mainly due to prior year's recognition of a deferred income tax resulting from a loss-making company turning profitable and increase in taxable profit due to the acquisition of mobile group companies.

Non-controlling Interests

Non-controlling interests of HK$67 million (2013: HK$39 million) primarily represented the net profit attributable to the minority shareholders of the ZhongYing JV and Sun Mobile Limited.

Profit Attributable to Holders of Share Stapled Units/ Shares of the Company

Profit attributable to holders of Share Stapled Units/shares of the Company for the year ended December 31, 2014 increased by 22% to HK$2,991 million (2013: HK$2,460 million).

LIQUIDITY AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to maintain a balance between shareholder return and a sound capital position. Adjustments are made, when necessary, to maintain an optimal capital structure in light of changes in economic conditions and to reduce the cost of capital.

HKT's gross debt[5] increased to HK$36,847 million as at December 31, 2014 (December 31, 2013: HK$24,626 million), which was a reflection of the additional borrowings raised for the CSL acquisition and the rights issue completed in July 2014. Cash and cash equivalents totaled HK$3,613 million as at December 31, 2014 (December 31, 2013: HK$2,134 million). As a result, HKT's net debt[5] was HK$33,234 million as at December 31, 2014 (December 31, 2013: HK$22,492 million). In January 2015, HKT took advantage of the favorable interest rate environment to raise US$300 million by issuing 15-year, zero coupon guaranteed notes for general corporate purposes including debt refinancing, and extended the debt maturity profile to 2030.

As at December 31, 2014, HKT had ample liquidity as evidenced by committed banking facilities totaling HK$29,377 million, of which HK$4,230 million remained undrawn.

HKT's gross debt[5] to total assets was 41% as at December 31, 2014 (December 31, 2013: 37%).

CREDIT RATINGS OF HONG KONG TELECOMMUNICATIONS (HKT) LIMITED

As at December 31, 2014, Hong Kong Telecommunications (HKT) Limited, an indirect wholly-owned subsidiary of the Company, had investment grade ratings with Moody's Investors Service ("Moody's") (Baa2) and Standard & Poor's Ratings Services ("S&P's") (BBB). Following the completion of the rights issue by the HKT Trust and HKT Limited and the use of proceeds to reduce debt, Moody's and S&P's revised the rating outlook on Hong Kong Telecommunications (HKT) Limited from negative to stable in July and August 2014 respectively.

CAPITAL EXPENDITURE[6]

Capital expenditure including capitalized interest for the year ended December 31, 2014 was HK$2,529 million (2013: HK$2,025 million). Capital expenditure relative to revenue was 8.8% in 2014, as compared to 8.9% in 2013. Major outlays for the year were mainly in network expansion and enhancement to meet demand for high-speed broadband fiber services, mobile services and international networks.

HKT will continue to invest in its delivery platforms and networks taking into account the prevailing market conditions and using assessment criteria including internal rate of return, net present value and payback period.

HEDGING

Market risk arises from foreign currency and interest rate exposure related to cash investments and borrowings. As a matter of policy, HKT continues to manage the market risk directly relating to its operations and financing and does not undertake any speculative derivative trading activities. The Finance and Management Committee, a sub-committee of the Executive Committee of the board of directors of the Company, determines appropriate risk management activities with the aim of prudently managing the market risk associated with transactions undertaken in the normal course of the Group's business. All treasury risk management activities are carried out in accordance with the policies and guidelines, approved by the Finance and Management Committee, which are reviewed on a regular basis.

Approximately three quarters of HKT's consolidated revenue and costs are denominated in Hong Kong dollars. For those operations with revenues denominated in foreign currencies, the related costs and expenses are usually denominated in the same foreign currencies and hence provide a natural hedge against each other. Therefore, the Group is not exposed to significant foreign currency fluctuation risk from operations.

As for financing, a significant portion of HKT's debt is denominated in United States dollars. Accordingly, HKT has entered into swap contracts in order to manage its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions. As at December 31, 2014, all cross currency interest rate swap contracts were designated as cash flow hedges and/or fair value hedges for the Company's foreign currency denominated short-term and long-term borrowings.

As a result, HKT's operational and financial risks are considered minimal.

CHARGE ON ASSETS

As at December 31, 2014, no assets of the Group (2013: nil) were pledged to secure loans and banking facilities of HKT.

CONTINGENT LIABILITIES

As at December 31, HK$ million	2013	**2014**
Performance guarantees	182	**2,128**
Guarantees given to banks in respect of credit facilities granted to an associate	64	**62**
Others	5	**12**
	251	**2,202**

HKT is subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the directors are of the opinion that any resulting liability would not materially affect the financial position of HKT.

HUMAN RESOURCES

After the successful integration of CSL staff in May 2014, HKT had approximately 17,600 employees as at December 31, 2014 (2013: 16,300). About 60% of these employees work in Hong Kong and the others are based mainly in mainland China, the Philippines and the United States. HKT has established incentive bonus schemes designed to motivate and reward employees at all levels to achieve business performance targets. Payment of bonuses is generally based on achievement of EBITDA and free cash flow targets for HKT as a whole and for each of the individual business units.

FINAL DIVIDEND/DISTRIBUTION

The board of directors of the Trustee-Manager has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 23.30 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the trust deed dated November 7, 2011 constituting the HKT Trust (the "Trust Deed")), in respect of the year ended December 31, 2014 (and in order to enable the HKT Trust to pay that distribution, the board of directors of the Company has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 23.30 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM"). An interim distribution/dividend of 21 HK cents per Share Stapled Unit/ordinary share of the Company for the six months ended June 30, 2014 was paid to holders of Share Stapled Units/shareholder of the Company in September 2014.

The board of directors of the Trustee-Manager has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Group have performed limited assurance procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants to review and verify the Trustee-Manager's calculation of the above distribution entitlement per Share Stapled Unit and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unitholders of the HKT Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the HKT Trust as they fall due.

FINANCIAL INFORMATION

COMBINED REPORT OF THE DIRECTORS

The board of directors of HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) (the "Trustee-Manager Board") and the board of directors of HKT Limited (the "Company") (the "Company Board") present the annual report together with the audited consolidated financial statements of (i) the HKT Trust and the Company and its subsidiaries (collectively the "Group") and (ii) the Company and its subsidiaries (collectively the "HKT Limited Group") (the consolidated financial statements of the Group and the HKT Limited Group are presented together and referred to as the "HKT Trust and HKT Limited consolidated financial statements") for the year ended December 31, 2014.

The Trustee-Manager Board also presents its audited financial statements for the year ended December 31, 2014, which are set out in the accompanying financial statements on pages 154 to 163.

PRINCIPAL ACTIVITIES

The HKT Trust, a trust constituted on November 7, 2011 under the laws of the Hong Kong Special Administrative Region ("Hong Kong") and managed by the Trustee-Manager, has been established as a fixed single investment trust, with its activities being limited to investing in the Company and anything necessary or desirable for or in connection with investing in the Company.

The principal activities of the HKT Limited Group are the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers. It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

The detailed segment information of the Group is set out in note 7 to the HKT Trust and HKT Limited consolidated financial statements.

The Trustee-Manager, an indirect wholly-owned subsidiary of PCCW Limited ("PCCW"), has a specific and limited role which is to administer the HKT Trust. The Trustee-Manager is not actively engaged in running the businesses managed by the HKT Limited Group.

RESULTS, APPROPRIATIONS AND DISTRIBUTIONS

The results of the Group for the year ended December 31, 2014 are set out in the accompanying HKT Trust and HKT Limited consolidated financial statements on page 60.

The results of the Trustee-Manager for the year ended December 31, 2014 are set out in the accompanying financial statements on page 155.

An interim distribution/dividend of 21 HK cents per share stapled unit of the HKT Trust and the Company (the "Share Stapled Unit")/ ordinary share of the Company for the six months ended June 30, 2014 was paid to holders of Share Stapled Units/shareholder of the Company in September 2014.

The Trustee-Manager Board has recommended the payment of a final distribution by the HKT Trust in respect of the Share Stapled Units, of 23.30 HK cents per Share Stapled Unit (after deduction of any operating expenses permissible under the Trust Deed (as defined below)), in respect of the year ended December 31, 2014 (and in order to enable the HKT Trust to pay that distribution, the Company Board has recommended the payment of a final dividend in respect of the ordinary shares in the Company held by the Trustee-Manager, of 23.30 HK cents per ordinary share, in respect of the same period), subject to the approval of unitholders of the HKT Trust and of shareholders of the Company at the forthcoming annual general meeting of unitholders of the HKT Trust and of shareholders of the Company to be held on a combined basis as a single meeting characterized as an annual general meeting of registered holders of Share Stapled Units ("AGM").

The Trustee-Manager Board does not recommend the payment of a final dividend for the year ended December 31, 2014 to CAS Holding No. 1 Limited, the sole member of the Trustee-Manager.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 153.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the principal subsidiaries of the Company, and of interests in an associate and joint ventures of the Group are set out in notes 23, 19 and 20 respectively to the HKT Trust and HKT Limited consolidated financial statements.

The Trustee-Manager itself does not beneficially own any subsidiaries, associates nor joint ventures.

FIXED ASSETS

Details of movements in the Group's property, plant and equipment, and interests in leasehold land during the year are set out in notes 15 and 16 respectively to the HKT Trust and HKT Limited consolidated financial statements.

BORROWINGS

Particulars of the Group's borrowings are set out in notes 24(c) and 25 to the HKT Trust and HKT Limited consolidated financial statements.

SHARE STAPLED UNITS AND SHARE CAPITAL

On June 13, 2014, the HKT Trust and the Company announced a proposed rights issue (the "Rights Issue") which involved the issue of 1,155,011,542 new Share Stapled Units (the "Rights Share Stapled Units") at the subscription price of HK$6.84 per Rights Share Stapled Unit on the basis of 18 Rights Share Stapled Units for every 100 existing Share Stapled Units then held. The Rights Issue was completed on July 24, 2014. As at December 31, 2014, the total number of Share Stapled Units in issue was 7,571,742,334.

Details of movements in the share capital of the Company during the year ended December 31, 2014 are set out in note 28 to the HKT Trust and HKT Limited consolidated financial statements.

Details of the share capital of the Trustee-Manager during the year ended December 31, 2014 are set out in note 7 to the financial statements of the Trustee-Manager.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in notes 28 and 29 respectively to the HKT Trust and HKT Limited consolidated financial statements.

The statement of changes in equity of HKT Management Limited during the year is set out on page 157.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2014, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases.

DIRECTORS

The directors of the Company (the "Company Directors") and the directors of the Trustee-Manager (the "Trustee-Manager Directors") (the Company Directors and the Trustee-Manager Directors collectively referred to as the "Directors") who held office during the year and up to the date of this report are:

Executive Directors
Li Tzar Kai, Richard *(Executive Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen
Srinivas Bangalore Gangaiah (aka BG Srinivas) (appointed with effect from August 5, 2014)

Independent Non-Executive Directors
Professor Chang Hsin Kang, FREng, GBS, JP
Sir Rogerio (Roger) Hyndman Lobo, CBE, LLD, JP (retired with effect from the conclusion of the combined AGM held on May 8, 2014)
The Hon Raymond George Hardenbergh Seitz
Sunil Varma
Aman Mehta (appointed with effect from the conclusion of the combined AGM held on May 8, 2014)

Under the trust deed dated November 7, 2011 constituting the HKT Trust entered into between the Trustee-Manager and the Company as supplemented, amended or substituted from time to time (the "Trust Deed"), the Trustee-Manager Directors must be the same individuals who serve as the Company Directors. Accordingly, the retirement by rotation provisions are also applicable, indirectly, in relation to the Trustee-Manager Directors.

In accordance with the Company's amended and restated articles of association and the Trust Deed, Li Tzar Kai, Richard, Lu Yimin, BG Srinivas, The Hon Raymond George Hardenbergh Seitz, Sunil Varma and Aman Mehta shall retire from office of both the Company and the Trustee-Manager at the forthcoming AGM. With the exception of The Hon Raymond George Hardenbergh Seitz who has decided not to seek re-election, all the other retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Trustee-Manager and the Company together have received from each of their independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and consider that all four independent non-executive Directors as at the date of this report, namely, Professor Chang Hsin Kang, The Hon Raymond George Hardenbergh Seitz, Sunil Varma and Aman Mehta are still independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

With respect to Aman Mehta, on February 15, 2013, Pacific Century Regional Developments Limited ("PCRD", a substantial shareholder of PCCW) announced the execution of a term sheet between PCRD Services Pte Ltd ("PCRD Services", a wholly-owned subsidiary of PCRD) and, amongst the others, KSH Distriparks Private Limited ("KSH"), Pasha Ventures Private Limited ("Pasha Ventures"), Aman Mehta (an independent non-executive Director) and Akash Mehta (the adult son of Aman Mehta) (together, the "Mehta Family") and Sky Advance Associates Limited ("Sky Advance", a company owned by Akash Mehta) in relation to a proposed restructuring (the "Proposed Restructuring") of their respective interests in Pasha Ventures and KSH by way of a scheme of amalgamation. As of March 11, 2012, PCRD Services, Aman Mehta and Akash Mehta held 74%, 21% and 5% of the paid up issued equity capital of Pasha Ventures respectively. KSH is an Indian private limited logistics company with an inland container depot located in Pune, India and owned at that time as to 25.94% and 5.19% respectively by PCRD Services and Sky Advance. As a result of the Proposed Restructuring, Pasha Ventures was amalgamated with KSH and Pasha Ventures ceased to be a subsidiary of PCRD and was dissolved in June 2013. As a result, the shareholdings of PCRD Services, Sky Advance and the Mehta Family in KSH are now approximately 49.87%, 2.61% and 12.94% respectively. Aman Mehta is a passive investor in KSH and does not hold any directorship in KSH. Save as disclosed above, Aman Mehta is not in any way connected to PCRD, PCRD Services, PCCW, the Company or the Trustee-Manager.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(CONTINUED)*

Notwithstanding Aman Mehta's investment in KSH, the Company and the Trustee-Manager are of the view that Aman Mehta's continued independence in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules is not affected by this investment for the following reasons: (i) Aman Mehta's investment in KSH is a purely passive personal investment; he is not a director of KSH nor has he any involvement or participation in the daily operations and management of KSH; (ii) the business of KSH does not overlap or conflict with the businesses of the Company; and (iii) save as disclosed above, neither Aman Mehta nor Akash Mehta hold any interest, direct or indirect in PCRD and/or its subsidiaries.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract with the HKT Limited Group which is not determinable by the HKT Limited Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND UNDERLYING SHARE STAPLED UNITS, AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2014, the Directors, the chief executives of the Company and the Trustee-Manager (collectively referred to as the "Chief Executives") and their respective close associates had the following interests and short positions in the Share Stapled Units and underlying Share Stapled Units, and the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules:

1. **Interests in the HKT Trust and HKT Limited**

   The table below sets out the aggregate long positions in the Share Stapled Units held by the Directors and the Chief Executives:

Name of Director/Chief Executive	Number of Share Stapled Units held Personal interests	Family interests	Corporate interests	Other interests	Number of underlying Share Stapled Units held under equity derivatives	Total	Approximate percentage of the total number of Share Stapled Units in issue
Li Tzar Kai, Richard	–	–	66,247,614 *(Note 1(a))*	147,909,017 *(Note 1(b))*	–	214,156,631	2.83%
Alexander Anthony Arena	631,795	–	–	2,315,756 *(Note 2)*	–	2,947,551	0.04%
Hui Hon Hing, Susanna	388,377	–	–	1,729,000 *(Note 2)*	–	2,117,377	0.03%
Peter Anthony Allen	21,530	–	–	–	–	21,530	0.0003%
Chung Cho Yee, Mico	99,238	946 *(Note 3)*	–	–	–	100,184	0.001%
Professor Chang Hsin Kang	2,790	–	–	–	–	2,790	0.00004%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND UNDERLYING SHARE STAPLED UNITS, AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

1. Interests in the HKT Trust and HKT Limited *(continued)*

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in the Company; and
(b) one voting preference share of HK$0.0005 in the Company,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the Trust Deed and the Company's amended and restated articles of association, the number of ordinary shares and preference shares of the Company in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

Notes:

1. (a) Of these Share Stapled Units, Pacific Century Diversified Limited ("PCD"), a wholly-owned subsidiary of Chiltonlink Limited ("Chiltonlink"), held 20,227,614 Share Stapled Units and Eisner Investments Limited ("Eisner") held 46,020,000 Share Stapled Units. Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink and Eisner.

   (b) These interests represented:

   (i) a deemed interest in 3,122,464 Share Stapled Units held by Yue Shun Limited ("Yue Shun"), a subsidiary of Hutchison Whampoa Limited ("HWL"). Cheung Kong (Holdings) Limited ("Cheung Kong") through certain subsidiaries held more than one-third of the total number of shares of HWL in issue. Li Tzar Kai, Richard was a discretionary beneficiary of certain discretionary trusts which held units in unit trusts which in turn held interests in certain shares of Cheung Kong and HWL. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 3,122,464 Share Stapled Units held by Yue Shun;

   (ii) a deemed interest in 13,159,619 Share Stapled Units held by Pacific Century Group Holdings Limited ("PCGH"). Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 13,159,619 Share Stapled Units held by PCGH;

   (iii) a deemed interest in 131,626,804 Share Stapled Units held by PCRD, a company in which PCGH had, through itself and certain wholly-owned subsidiaries being Anglang Investments Limited, Pacific Century Group (Cayman Islands) Limited, Pacific Century International Limited and Borsington Limited, an aggregate of 85.30% interest. Li Tzar Kai, Richard was the founder of certain trusts which held 100% interests in PCGH. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 131,626,804 Share Stapled Units held by PCRD. Li Tzar Kai, Richard was also deemed to be interested in 1.02% of the issued share capital of PCRD through Hopestar Holdings Limited, a company wholly-owned by Li Tzar Kai, Richard; and

   (iv) a deemed interest in 130 Share Stapled Units held by PineBridge Investments LLC ("PBI LLC") in the capacity of investment manager. PBI LLC was an indirect subsidiary of Chiltonlink and Li Tzar Kai, Richard owned 100% of the issued share capital of Chiltonlink. Accordingly, Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 130 Share Stapled Units held by PBI LLC in the capacity of investment manager.

2. These interests represented awards made to these Directors which were subject to certain vesting conditions pursuant to an award scheme of the Company, namely the HKT Share Stapled Units Purchase Scheme, the details of which are set out in the section below headed "**Share Stapled Units Award Schemes**".

3. These Share Stapled Units were held by the spouse of Chung Cho Yee, Mico.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND UNDERLYING SHARE STAPLED UNITS, AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

2. Interests in the Associated Corporations of the Company

A. PCCW (being the holding company of the HKT Trust and the Company and therefore an associated corporation)

The table below sets out the aggregate long positions in the shares and underlying shares of PCCW held by the Directors and the Chief Executives:

Name of Director/Chief Executive	Number of ordinary shares of PCCW held: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares of PCCW held under equity derivatives	Total	Approximate percentage of the total number of shares of PCCW in issue
Li Tzar Kai, Richard	–	–	284,671,817 *(Note 1(a))*	1,821,250,692 *(Note 1(b))*	–	2,105,922,509	28.26%
Alexander Anthony Arena *(Note 4)*	50,630	–	–	780,204 *(Note 3)*	200 *(Note 2)*	831,034	0.01%
Hui Hon Hing, Susanna	672,311	–	–	2,301,906 *(Note 3)*	–	2,974,217	0.04%
Peter Anthony Allen	265,320	–	–	–	–	265,320	0.004%
Chung Cho Yee, Mico	1,176,260	18,455 *(Note 5)*	–	–	–	1,194,715	0.02%
Professor Chang Hsin Kang	64,180	–	–	–	–	64,180	0.001%

Notes:

1. (a) Of these PCCW shares, PCD held 249,309,311 shares and Eisner held 35,362,506 shares.

   (b) These interests represented:

   (i) a deemed interest in 36,726,857 shares of PCCW held by Yue Shun. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 36,726,857 shares of PCCW held by Yue Shun;

   (ii) a deemed interest in 162,194,916 shares of PCCW held by PCGH. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 162,194,916 shares of PCCW held by PCGH;

   (iii) a deemed interest in 1,622,325,919 shares of PCCW held by PCRD. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 1,622,325,919 shares of PCCW held by PCRD; and

   (iv) a deemed interest in 3,000 shares of PCCW held by PBI LLC in the capacity of investment manager. Li Tzar Kai, Richard was deemed, under the SFO, to have an interest in the 3,000 shares of PCCW held by PBI LLC in the capacity of investment manager.

2. These interests represented Alexander Anthony Arena's beneficial interest in 200 underlying shares of PCCW held in the form of 20 American Depositary Receipts which constituted listed equity derivatives.

3. These interests represented awards made to these Directors which were subject to certain vesting conditions pursuant to an award scheme of PCCW, namely the Purchase Scheme.

4. As disclosed previously in the annual reports and interim reports of PCCW and the HKT Trust and HKT Limited, in 2009 a private company owned by Li Tzar Kai, Richard has provided a seven year interest-free loan in the amount of US$10,000,000 to Alexander Anthony Arena at his request and for personal reasons. Alexander Anthony Arena has entered into a seven year consultancy agreement with another private company owned by Li Tzar Kai, Richard with an annual consultancy fee sufficient to repay the aforementioned loan over its seven year term. This private arrangement was reviewed by the remuneration committee of PCCW prior to its finalization. The committee noted that the consultancy services provided to the private company would be publicly disclosed, would not conflict with Alexander Anthony Arena's duties at PCCW and overall would be in the interests of PCCW. A subsequent amendment made in October 2013 permits part of the loan previously repaid to be re-drawn, as an interest bearing loan repayable in cash within the original seven year term.

5. These PCCW shares were held by the spouse of Chung Cho Yee, Mico.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS AND UNDERLYING SHARE STAPLED UNITS, AND SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(CONTINUED)*

2. Interests in the Associated Corporations of the Company *(continued)*

B. Pacific Century Premium Developments Limited ("PCPD", an indirect subsidiary of PCCW and therefore an associated corporation)

The table below sets out the long position in the shares of PCPD held by a Director:

Name of Director	Number of ordinary shares of PCPD held: Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares of PCPD held under equity derivatives	Total	Approximate percentage of issued share capital of PCPD
Chung Cho Yee, Mico	5,000,000	–	–	–	–	5,000,000	1.24%

During the year, Chung Cho Yee, Mico has exercised all outstanding share options which were granted by PCPD to him pursuant to a share option scheme of PCPD which was adopted on March 17, 2003 and terminated by the shareholders of PCPD at its annual general meeting held on May 13, 2005. The details of such share options are set out below:

Name of Director	Date of grant *(Note)*	Vesting period *(Note)*	Exercise period *(Note)*	Exercise price HK$	Number of options: Outstanding as at 01.01.2014	Outstanding as at 12.31.2014
Chung Cho Yee, Mico	12.20.2004	Fully vested on 12.20.2004	12.20.2004 to 12.19.2014	2.375	5,000,000	–

Note: All dates are shown month/day/year.

C. PCCW-HKT Capital No.4 Limited (an indirect wholly-owned subsidiary of the Company and therefore an associated corporation)

FWD Life Insurance Company (Bermuda) Limited ("FWD") held US$9,000,000 of 4.25% guaranteed notes due 2016 issued by PCCW-HKT Capital No.4 Limited. Li Tzar Kai, Richard indirectly owned an approximate 87.7% interest in FWD.

Save as disclosed in the foregoing, as at December 31, 2014, none of the Directors or the Chief Executives or their respective close associates had any interests or short positions in any Share Stapled Units or underlying Share Stapled Units or in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register(s) required to be kept under Section 352 of the SFO or as otherwise notified to the Company, the Trustee-Manager and the Stock Exchange pursuant to the Model Code of the Listing Rules.

SHARE STAPLED UNITS OPTION SCHEME

The HKT Trust and the Company conditionally adopted on November 7, 2011 (the "Adoption Date") a Share Stapled Units option scheme (the "2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units, under which the Trustee-Manager Board and the Company Board may, at their discretion, grant Share Stapled Unit options to the eligible participants to subscribe for such number of Share Stapled Units as the Trustee-Manager Board and the Company Board may determine at a subscription price on and subject to the terms and conditions stipulated therein.

(1) Purpose

The purpose of the 2011-2021 Option Scheme is to enable the HKT Trust and the Company, acting jointly by mutual agreement between them, to grant options to the eligible participants as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the eligible participants.

(2) Eligible participant

Eligible participants include (a) any full-time or part-time employee of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive or independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries.

The Trustee-Manager is not an eligible participant under the 2011-2021 Option Scheme.

(3) Total number of Share Stapled Units available for issue

(i) Notwithstanding any other provisions of the 2011-2021 Option Scheme, no options may be granted under the 2011-2021 Option Scheme if the exercise of the option may result in PCCW ceasing to hold at least 51% of the Share Stapled Units in issue (on a fully diluted basis assuming full conversion or exercise of all outstanding options and other rights of subscription, conversion and exchange for Share Stapled Units).

(ii) Subject to the further limitation in (i) above, as required by the Listing Rules the total number of Share Stapled Units which may be issued upon exercise of all options to be granted under the 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and the Company must not, in aggregate, exceed 10% of the issued Share Stapled Units as at November 29, 2011 unless the approval of holders of Share Stapled Units has been obtained.

(iii) In addition, as prescribed by the Listing Rules, the maximum aggregate number of Share Stapled Units which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2011-2021 Option Scheme and any other share option schemes of the HKT Trust and the Company must not exceed 30% of the issued Share Stapled Units from time to time. No options may be granted under the 2011-2021 Option Scheme if this will result in such limit being exceeded.

(4) The maximum entitlement of each eligible participant

The maximum entitlement of each eligible participant (other than a substantial holder of Share Stapled Units or an independent non-executive Director, or any of their respective associates) under the 2011-2021 Option Scheme is the total number of Share Stapled Units issued and to be issued upon exercise of all options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding options under the 2011-2021 Option Scheme) in the 12-month period up to and including the date of such further grant provided that such further grant does not exceed 1% of the issued Share Stapled Units as at the relevant time.

(5) Option period

An option may be exercised in whole or in part in accordance with the terms of the 2011-2021 Option Scheme at any time during a period to be notified by the Trustee-Manager Board and the Company Board to each grantee, the expiry date of such period not to exceed ten (10) years from the date of grant of the option.

SHARE STAPLED UNITS OPTION SCHEME *(CONTINUED)*

(6) Minimum period for which an option must be held before it is vested

The period within which an option may be exercised under the 2011-2021 Option Scheme will be determined by the Trustee-Manager Board and the Company Board in their absolute discretion, provided that such terms and conditions shall not be inconsistent with any other terms and conditions of the 2011-2021 Option Scheme.

(7) Payment on acceptance of the option

Upon acceptance of the offer, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant and the date on which the option is offered shall be deemed to be the date of grant of the relevant option, except in determining the date of grant for the purpose of calculating the subscription price in accordance with the provisions of the 2011-2021 Option Scheme.

(8) Basis of determining the subscription price

The subscription price for Share Stapled Units in respect of any particular option granted shall be such price as the Trustee-Manager Board and the Company Board shall determine, provided that such price shall not be less than the highest of (i) the closing price per Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet on the date of offer of the option, which must be a business day; and (ii) the average of the closing prices of a Share Stapled Unit on the main board as stated in the Stock Exchange's daily quotation sheet for the five (5) business days immediately preceding the date of offer of the option; and (iii) the aggregate of the nominal values of the preference share and ordinary share components of a Share Stapled Unit.

(9) The remaining life of the 2011-2021 Option Scheme

Subject to the early termination by an ordinary resolution in general meeting of registered holders of Share Stapled Units or resolutions of the Company Board, the 2011-2021 Option Scheme shall be valid and effective for a period of ten (10) years commencing from the Adoption Date, after which period no further options will be offered or granted but the provisions of the 2011-2021 Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the 2011-2021 Option Scheme.

No Share Stapled Unit options have been granted under the 2011-2021 Option Scheme since the Adoption Date and up to and including December 31, 2014.

SHARE STAPLED UNITS AWARD SCHEMES

On October 11, 2011, the Company conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes"). The Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by the Company and became effective upon listing of the Share Stapled Units as a potential means to incentivize and reward the eligible participants.

In the case of the HKT Share Stapled Units Purchase Scheme, the eligible participants include (a) any full-time or part-time employees of the Company and/or any of its subsidiaries; and (b) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme, the eligible participants are the same as the eligible participants in respect of the HKT Share Stapled Units Purchase Scheme, as referred to above, except that the directors of the Company or its subsidiaries and/or any other connected persons of the Company are not eligible participants. The reason why directors of the Company or any of its subsidiaries (or any other connected persons) are excluded from participation is to avoid the connected transactions that would otherwise arise on the allotment of new Share Stapled Units to the Trustee (as defined below) to be held in trust for such directors (or other connected persons).

The Share Stapled Units Award Schemes are administered by the Company Board and an independent trustee (the "Trustee"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants.

Subject to the rules of the Share Stapled Units Award Schemes, each scheme provides that following the making of an award to an employee of the HKT Limited Group, the relevant Share Stapled Units are held in trust for that employee and then shall vest over a period of time provided that the employee remains, at all times after the award date and on the relevant vesting date, an employee of the HKT Limited Group and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the Company Board shall be at liberty to waive such condition.

SHARE STAPLED UNITS AWARD SCHEMES *(CONTINUED)*

During the year ended December 31, 2014, an aggregate of 12,962,935 Share Stapled Units were granted subject to certain vesting conditions pursuant to the HKT Share Stapled Units Purchase Scheme, including awards in respect of 2,210,922 and 1,757,269 Share Stapled Units made respectively to Alexander Anthony Arena and Hui Hon Hing, Susanna (the directors of the Company and the Trustee-Manager). Additionally, 344,000 Share Stapled Units have lapsed and/or been forfeited and 2,579,800 Share Stapled Units have vested during the year. As at December 31, 2014, 12,995,117 Share Stapled Units granted pursuant to the HKT Share Stapled Units Purchase Scheme remained unvested. No Share Stapled Units have been granted under the HKT Share Stapled Units Subscription Scheme since the date of its adoption and up to and including December 31, 2014. Please also refer to the details of the awards made to employees during the year ended December 31, 2014 which are set out in note 27(b)(iii) to the HKT Trust and HKT Limited consolidated financial statements on pages 118 to 121.

Save as disclosed above, at no time during the year under review was the Trustee-Manager, the Company or any of their subsidiaries, holding companies or fellow subsidiaries a party to any arrangement that may enable the Directors to acquire benefits by means of the acquisition of Share Stapled Units in the HKT Trust and the Company, or shares in, or debentures of, the Company or any other body corporate and none of the Directors or the Chief Executives or their spouses or children under 18 years of age had any right to subscribe for equity or debt securities of the HKT Trust and/or the Company or any of its associated corporations or had exercised any such right during the year under review.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL HOLDERS OF SHARE STAPLED UNITS

As at December 31, 2014, the following persons (other than any Directors or Chief Executives) were substantial holders of Share Stapled Units, and of ordinary shares and preference shares in the Company, and had interests or short positions in the Share Stapled Units and underlying Share Stapled Units, and in the shares and underlying shares of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO:

Name	Capacity	Number of Share Stapled Units held	Approximate percentage of the total number of Share Stapled Units in issue	*Note*
PCCW	Interest in controlled entity	4,775,714,681	63.07%	1
CAS Holding No. 1 Limited	Beneficial interest	4,775,714,681	63.07%	
The Capital Group Companies, Inc.	Interest in controlled entities	754,136,664	9.96%	2

Each Share Stapled Unit confers an interest in:

(a) one voting ordinary share of HK$0.0005 in the Company; and
(b) one voting preference share of HK$0.0005 in the Company,

for the purposes of Part XV of the SFO, in addition to an interest in one unit in the HKT Trust.

Under the Trust Deed and the Company's amended and restated articles of association, the number of ordinary shares and preference shares of the Company in issue must be the same at all times and must also, in each case, be equal to the number of units of the HKT Trust in issue; and each of them is equal to the number of Share Stapled Units in issue.

Notes:

The Trustee-Manager held all of the issued ordinary shares of the Company in its capacity as trustee and manager of the HKT Trust, upon and subject to the terms and conditions of the Trust Deed.

1. PCCW indirectly held these interests through its direct wholly-owned subsidiary, CAS Holding No. 1 Limited.

2. Based on a disclosure of interest filing made by The Capital Group Companies, Inc. under Part XV of the SFO on or about July 16, 2014, The Capital Group Companies, Inc. indirectly held these interests through its direct/indirect wholly-owned subsidiaries. Subsequent to December 31, 2014, The Capital Group Companies, Inc. made another disclosure of interest filing on or about January 9, 2015 disclosing its holding of 545,097,500 Share Stapled Units, representing approximately 7.20% of the total number of Share Stapled Units in issue.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL HOLDERS OF SHARE STAPLED UNITS *(CONTINUED)*

Save as disclosed above in this section, the Trustee-Manager and the Company have not been notified of any other persons (other than any Directors or Chief Executives) who had an interest or a short position in the Share Stapled Units or underlying Share Stapled Units, or in the shares, underlying shares or debentures of the Company as recorded in the register(s) required to be kept under Section 336 of the SFO as at December 31, 2014.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business (as defined in the Listing Rules) to which the Trustee-Manager or the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Except for contracts amongst PCCW and its subsidiaries, no other contract of significance in relation to the Trustee-Manager's business to which the Trustee-Manager was a party and in which a Trustee-Manager Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2014, the interests of the Directors in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Li Tzar Kai, Richard

Li Tzar Kai, Richard was a director of HWL and certain of its subsidiaries until August 16, 2000, the day before the acquisition of Cable & Wireless HKT Limited (now known as PCCW-HKT Limited) became effective. HWL is a company listed on the main board of the Stock Exchange and has its own management team separate from the HKT Limited Group. HWL and its subsidiaries (the "Hutchison Group") are involved in the business of ports and related services, property and hotels, retail, infrastructure, energy, telecommunications, and finance & investments and others. Certain businesses of the Hutchison Group compete with certain aspects of the business of the HKT Limited Group. Li Tzar Kai, Richard has a personal interest in 110,000 shares in HWL, and is one of the discretionary beneficiaries of certain discretionary trusts which hold units in unit trusts which in turn are interested in certain shares of HWL. In view of the above, the Directors consider that Li Tzar Kai, Richard is not able to exert control or influence over the Hutchison Group.

Lu Yimin and Li Fushen

Lu Yimin is an executive director and President of China Unicom (Hong Kong) Limited. He is Vice Chairman and President of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a director and President of China United Network Communications Limited and a director and President of China United Network Communications Corporation Limited.

Li Fushen is an executive director and Chief Financial Officer of China Unicom (Hong Kong) Limited. He is a director, Vice President and Chief Accountant of 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#). He is also a director of China United Network Communications Limited and a director and Senior Vice President of China United Network Communications Corporation Limited.

China Unicom (Hong Kong) Limited is a company listed on the New York Stock Exchange and the main board of the Stock Exchange. 中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited#) is the ultimate parent company of China Unicom (Hong Kong) Limited and China United Network Communications Limited is a shareholder of China Unicom (Hong Kong) Limited. China United Network Communications Corporation Limited is a subsidiary of China Unicom (Hong Kong) Limited. China United Network Communications Limited is a company listed on the Shanghai Stock Exchange. Save for Lu Yimin and Li Fushen, each of these companies has its own management team separate from the HKT Limited Group. These companies are involved in the business of provision of wireless, fixed-line, broadband, data and related value-added services and compete with certain aspects of the business of the HKT Limited Group. As Lu Yimin and Li Fushen are non-executive Directors who are not involved in the day-to-day management of the Trustee-Manager, the Company or any other member of the HKT Limited Group, the Directors consider that Lu Yimin and Li Fushen are not able to exert control or influence over the HKT Limited Group.

For identification only

CHARITABLE DONATIONS

During the year, the Group made charitable donations of approximately HK$208,000 (2013: HK$28,000).

SUBSEQUENT EVENT

Details of the significant subsequent event are set out in note 40 to the HKT Trust and HKT Limited consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Under the Trust Deed and for so long as the Trust Deed remains in effect, the Share Stapled Units cannot be repurchased or redeemed by the HKT Trust and the Company unless and until specific regulations which expressly permit repurchase or redemption are introduced by the Securities and Futures Commission. Therefore, the holders of Share Stapled Units have no right to request the Trustee-Manager to repurchase or redeem their Share Stapled Units, and the HKT Trust and the Company are not allowed to repurchase their own Share Stapled Units.

During the year ended December 31, 2014, none of the HKT Trust (including the Trustee-Manager), the Company or the Company's subsidiaries purchased, sold or redeemed any Share Stapled Units.

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the announcement dated December 27, 2013 jointly issued by the Trustee-Manager and the Company, members of the HKT Limited Group have entered into various agreements with PCCW and/or its other subsidiaries (collectively, the "PCCW Group") as described in paragraphs (1) to (17) below. The transactions contemplated under these agreements constituted continuing connected transactions (as defined in the Listing Rules) of the HKT Limited Group because PCCW is the controlling holder of the Share Stapled Units in issue and therefore a connected person (as defined in the Listing Rules) of the HKT Trust and the Company. Each of these agreements is for a term of three years effective from January 1, 2014 to December 31, 2016. It is considered that the entering into of these continuing connected transactions with the PCCW Group will help to achieve business continuity and efficiency as well as to minimize any potential disruption to the daily operation of the HKT Limited Group. Details of these transactions are set out below in accordance with the Listing Rules.

Services and floor space supplied by the HKT Limited Group to HKT Media Holdings Limited and its subsidiaries (collectively, the "Media Group")

(1) The provision of carriage services

On December 27, 2013, Hong Kong Telecommunications (HKT) Limited ("HK Telecom"), an indirect wholly-owned subsidiary of the Company, and PCCW Media Limited ("PCCW Media"), an indirect wholly-owned subsidiary of PCCW, entered into a carriage services agreement, pursuant to which HK Telecom has agreed to provide or procure the provision of carriage services to the Media Group to facilitate the Media Group's delivery of its pay television and other services to its customers.

(2) The provision of marketing and sales services

On December 27, 2013, HK Telecom and PCCW Media entered into a marketing and sales services agreement, pursuant to which HK Telecom has agreed to market and sell Media Group products and services through the HKT Limited Group's direct marketing staff, front-line (i.e. on the street) sales teams, shops and via its call centres; and to provide a unified call-centre support service. This agreement is the reciprocal arrangement of the agreement referred to in paragraph (6) below, on like terms, governing sales by the Media Group's dedicated sales staff of the HKT Limited Group's products and services.

(3) The provision of internal (specialist telecom) services

On December 27, 2013, HK Telecom and PCCW Media entered into an internal (specialist telecom) services agreement, pursuant to which HK Telecom has agreed to procure that relevant members of the HKT Limited Group provide to the Media Group a range of specialized support services that are integral to the operation of the Media Group's business.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services and floor space supplied by the HKT Limited Group to HKT Media Holdings Limited and its subsidiaries (collectively, the "Media Group") *(continued)*

(4) Licensed access to floor space

On December 27, 2013, PCCW Media has been afforded certain limited access rights to floor space for it and members of the Media Group at a number of premises of PCCW-HKT Telephone Limited ("HKTC", an indirect wholly-owned subsidiary of PCCW) ("HKTC's Premises"). Pursuant to a licence agreement signed between HK Telecom and HKTC, HKTC granted to HK Telecom a licence to, among other things, install, store, operate and maintain equipment, machinery, chattels and installations at HKTC's Premises. HKTC continues to meet and defray all costs, expenses and outgoings of HKTC's Premises but HK Telecom is responsible for reimbursing HKTC the outgoings on a periodic basis. HKTC is also required to pay the amount of any income or profit received or to be received by HKTC to HK Telecom in respect of HKTC's Premises. Accordingly, the licence fees paid by the Media Group are passed on by HKTC to HK Telecom pursuant to the aforesaid arrangement. In effect, therefore, these licensing arrangements are akin to direct arrangements between HK Telecom and the Media Group.

Services supplied by the Media Group to the HKT Limited Group

(5) Service packaging arrangements

On December 27, 2013, HK Telecom and PCCW Media entered into a service packaging agreement. The agreement comprises two aspects:

- a mutual commitment to package the HKT Limited Group's products and services and the Media Group's products and services from time to time, from which results a dynamic and ongoing series of promotional packages (e.g. certain channels tied to a particular broadband purchasing commitment); and

- a commitment by the Media Group to provide customers of the HKT Limited Group with certain content services and products, the composition of which is agreed between the parties from time to time.

(6) The provision of marketing and sales services

On December 27, 2013, HK Telecom and PCCW Media entered into a marketing and sales services agreement. This agreement represents the reciprocal arrangement to that provided for in the agreement described in paragraph (2) above. By this agreement, PCCW Media agrees to procure that relevant members of the Media Group will market the products and services of the HKT Limited Group.

(7) Content provision arrangements

On December 27, 2013, HK Telecom and PCCW Media entered into a content services agreement, pursuant to which PCCW Media has a first right of supply and agreed to supply, procure to supply or provide content management and production support services to the HKT Limited Group for distribution through its eye and mobile platforms.

(8) Directories publishing arrangements

On December 27, 2013, PCCW Media and HK Telecom entered into a directories publishing agreement. As the overall operator of the directories businesses, the Media Group has been granted an exclusive right and licence, amongst other things, to produce and publish the White Pages Business directory and the Fax directory in print and electronic format. The Media Group charges the HKT Limited Group on a cost basis, based on the number of directories printed, the number of delivery locations requested and the development and maintenance of electronic directories.

(9) Pay TV set-top-box access agreement

On December 27, 2013, HK Telecom and PCCW Media entered into an agreement pursuant to which the HKT Limited Group pays the Media Group a monthly charge for the provision of 'user access' to certain services that are capable of being provided via the Media Group's set-top-boxes to customers subscribing for such services from the HKT Limited Group. The Media Group charges a market rate for such user-access rights.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services and floor space supplied by the HKT Limited Group to HKT Solutions Holdings Limited and its subsidiaries (collectively, the "Solutions Group")

(10) Provision of managed services and other telecommunications related services

On December 27, 2013, HK Telecom and PCCW Solutions Limited ("PCCW Solutions"), an indirect wholly-owned subsidiary of PCCW, entered into a managed wavelength service agreement whereby HK Telecom has agreed to provide certain connectivity services to PCCW Solutions, linking the Solutions Group's data centre(s) in Hong Kong and certain designated sites based on an agreed bandwidth capacity and in accordance with other agreed services levels.

On December 27, 2013, HK Telecom and PCCW Solutions also entered into a telecommunications and other miscellaneous services agreement whereby HK Telecom and its specified affiliates in the HKT Limited Group have agreed to provide certain agreed telecommunications and related services to the Solutions Group on normal commercial terms.

(11) Licensed access to floor space

On December 27, 2013, PCCW Solutions has been afforded certain limited access rights to floor space for it and members of the Solutions Group at a number of HKTC's Premises. Pursuant to a licence agreement signed between HK Telecom and HKTC, HKTC granted to HK Telecom a licence to, among other things, install, store, operate and maintain equipment, machinery, chattels and installations at HKTC's Premises. HKTC continues to meet and defray all costs, expenses and outgoings of HKTC's Premises but HK Telecom is responsible for reimbursing HKTC the outgoings on a periodic basis. HKTC is also required to pay the amount of any income or profit received or to be received by HKTC to HK Telecom in respect of HKTC's Premises. Accordingly, the licence fees paid by the Solutions Group are passed on by HKTC to HK Telecom pursuant to the aforesaid arrangement. In effect, therefore, these licensing arrangements are akin to direct arrangements between HK Telecom and the Solutions Group.

Services supplied by the Solutions Group to the HKT Limited Group

(12) Solutions services

The Solutions Group provides the following customized solutions to the HKT Limited Group pursuant to the following agreements:

(a) Data Centre and Managed Services ("DCMS")

Pursuant to a bureau services agreement dated December 27, 2013 between PCCW Solutions and HK Telecom, PCCW Solutions provides certain bureau services to HK Telecom and its designated affiliates. These services include help desk services, problem management, change management, system and database support, information technology security services, data centre services, backup management, service level management, disaster recovery and technical platform services.

(b) Information Technology Systems Integration ("ITSI")

Pursuant to two agreements dated December 27, 2013 each between PCCW Solutions and HK Telecom, PCCW Solutions provides the following services to HK Telecom and its designated affiliates:

- certain application management services (such as application support and maintenance, production acceptance testing and application release management); and
- certain system development services (such as information technology system design, development and implementation).

(c) Business Process and Logistics Operation ("BPLO")

Pursuant to an agreement dated December 27, 2013 between Power Logistics Limited ("Power Logistics"), a company in the Solutions Group, and HK Telecom, Power Logistics provides a range of different business processing, order fulfillment and logistical services to the HKT Limited Group. These services include warehouse and stock management, logistics services, transportation services, printing and lettershopping services, delivery, mass distribution, document imaging and data entry services.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Services supplied by the Solutions Group to the HKT Limited Group *(continued)*

(13) Sub-contracting agreement

On December 27, 2013, PCCW (Macau), Limitada ("PCCW Macau"), a company within the HKT Limited Group, and PCCW-HKT Technical Services Limited ("TSL"), an indirect wholly-owned subsidiary of PCCW, entered into a sub-contracting agreement. PCCW Macau has contracted with various third parties for the provision of solutions services with various operators in Macau such as information technology related systems within hotels and casinos. Rather than performing the work itself, PCCW Macau has sub-contracted the work to TSL. Accordingly, the work is carried out by TSL and all fees received in respect of the work are passed on by PCCW Macau to TSL after PCCW Macau has deducted sub-contracting fees.

(14) The provision of corporate shared services

On December 27, 2013, HKT Services Limited ("HKT Services"), a company within the HKT Limited Group, and PCCW Services Limited ("PCCW Services"), a direct wholly-owned subsidiary of PCCW, entered into a corporate shared services agreement, pursuant to which HKT Services and its affiliates have agreed to provide certain members of the PCCW Group a range of corporate support services that are integral to the operation of both groups, including managerial support. The charges for these services are actual direct and indirect cost incurred in the supply and procuring of the supply of the services, including overheads, human and/or other resources and/or units and other deliverables.

(15) The provision of marketing and promotion services

On December 27, 2013, HK Telecom and PCCW-HKT Limited ("HKTL"), an indirect wholly-owned subsidiary of PCCW, entered into a marketing and promotion services agreement, pursuant to which HK Telecom has agreed to provide publicity, promotion and branding services to HKTL, including producing "i.Shop", a magazine produced each month to advertise the products and services of the PCCW Group, and other promotional activities. The services are charged on a cost basis.

(16) Licensing agreement (PCCW Tower)

PCCW Services is the tenant in respect of certain spaces located at PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong, which it leases from an independent third party pursuant to a lease dated October 31, 2008. The lease expired on December 31, 2014 with the subsequent extension of three years until December 31, 2017. Under and subject to the terms of the lease, PCCW Services is afforded the right to share the premises with its related companies, which include members of the HKT Limited Group. PCCW Services and HKT Services entered into an agreement dated December 27, 2013 pursuant to which HKT Services has been granted a licence to occupy certain floor spaces for office use.

(17) Licensing of leased floor spaces (Telecom House)

PCCW Global Limited ("PCCW Global"), an indirect wholly-owned subsidiary of the Company, is a tenant of certain spaces located at Telecom House, 3 Gloucester Road, Wanchai, Hong Kong ("Telecom House"), which are leased from Reach Networks Hong Kong Limited pursuant to a tenancy agreement dated February 28, 2011 (supplemented by two supplemental agreements dated September 9, 2011 and December 19, 2013 respectively). This tenancy agreement expires on February 27, 2016.

HK Telecom is also a tenant of certain spaces located at Telecom House, which are leased from Reach Networks Hong Kong Limited pursuant to a lease dated May 25, 2012. This lease expires on February 29, 2016.

On December 27, 2013, PCCW Media entered into an agreement with PCCW Global and HK Telecom pursuant to which PCCW Media has been granted a licence to occupy certain floor spaces at Telecom House for office use.

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

The approximate aggregate values and the annual caps for each of the categories of continuing connected transactions as described in paragraphs (1) to (17) above for the financial year ended December 31, 2014 are set out below:

Agreement/Service description	Approximate aggregate values for the financial year ended December 31, 2014 (HK$'000)	Annual caps for the financial year ended December 31, 2014 (HK$'000)
Services and floor space supplied by the HKT Limited Group to the Media Group		
(1) The provision of carriage services	154,281	280,200
(2) The provision of marketing and sales services	177,681	209,600
(3) The provision of internal (specialist telecom) services	20,964	21,000
(4) Licensed access to floor space	1,342	4,600
Services supplied by the Media Group to the HKT Limited Group		
(5) Service packaging arrangements	605,916	634,500
(6) The provision of marketing and sales services	23,737	23,800
(7) Content provision arrangements	330,575	371,000
(8) Directories publishing arrangements	–	40
(9) Pay TV set-top-box access agreement	218	1,100
Services and floor space supplied by the HKT Limited Group to the Solutions Group		
(10) Provision of managed services and other telecommunications related services	58,300	312,700
(11) Licensed access to floor space	10,305	13,500
Services supplied by the Solutions Group to the HKT Limited Group		
(12) (a) DCMS – bureau services	329,700	350,000
(b) ITSI – application management services	81,300	81,300
ITSI – system development services	50,121	52,200
ITSI Total	131,421	133,500
(c) BPLO – business process, order fulfillment & logistics services	126,000	152,200
Solutions services Total	587,121	635,700
(13) Contracted service cost from PCCW Macau to TSL	74,100	150,000
Sub-contracting fees from TSL to PCCW Macau	1,500	7,500
(14) The provision of corporate shared services	81,866	120,800
(15) The provision of marketing and promotion services	37,396	72,300
(16) Licensing agreement (PCCW Tower)	128,177	132,000
(17) Licensing of leased floor spaces (Telecom House)	12,838	18,400

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Annual Review of Continuing Connected Transactions

The Company's external auditor was engaged to report on the continuing connected transactions described in paragraphs (1) to (17) above entered into between the HKT Limited Group and the PCCW Group for the year ended December 31, 2014 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued their unqualified letter containing their findings and conclusions in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

The Company Board and the Trustee-Manager Board, including the independent non-executive Directors, have reviewed and confirmed that the continuing connected transactions described in paragraphs (1) to (17) above were entered into:

(i) in the ordinary and usual course of business of the HKT Limited Group;

(ii) on normal commercial terms or on terms no less favourable to the HKT Limited Group than terms available to or from independent third parties; and

(iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the holders of the Share Stapled Units as a whole.

The Trustee-Manager Board has also confirmed that the charges paid or payable out of the Trust Property (as defined in the Trust Deed) of the HKT Trust to the Trustee-Manager are in accordance with the Trust Deed; and they are not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the HKT Trust or on the interests of all the holders of the Share Stapled Units as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in note 5 to the HKT Trust and HKT Limited consolidated financial statements. In relation to those related party transactions that constituted connected transactions under the Listing Rules, the relevant transactions comply with applicable requirements in accordance with the Listing Rules.

Details of the related party transactions of the Trustee-Manager during the year are set out in note 4 to the financial statements of the Trustee-Manager.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's amended and restated articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PUBLIC FLOAT

As at the date of this report, the HKT Trust (including the Trustee-Manager) and the Company have complied with the prescribed public float requirement under the Listing Rules, based on the information that is publicly available to the Trustee-Manager and the Company and within the knowledge of the Directors.

AUDITOR

The HKT Trust and HKT Limited consolidated financial statements for the financial year ended December 31, 2014 and the financial statements of the Trustee-Manager for the financial year ended December 31, 2014 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the HKT Trust, the Company and the Trustee-Manager is to be proposed at the forthcoming AGM.

On behalf of the boards of
HKT Limited and
HKT Management Limited
(in its capacity as the trustee-manager of the HKT Trust)

Philana WY Poon
Group General Counsel and Company Secretary
Hong Kong, February 10, 2015

羅兵咸永道

TO THE HOLDERS OF SHARE STAPLED UNITS OF HKT TRUST AND HKT LIMITED
(HKT Trust is a trust constituted under the laws of Hong Kong; HKT Limited is incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of HKT Trust, HKT Limited (the "Company") and its subsidiaries (together the "Group") and of HKT Limited and its subsidiaries (the "HKT Limited Group") set out on pages 60 to 152 (together referred to as the "HKT Trust and HKT Limited consolidated financial statements"). As explained in note 1 to the HKT Trust and HKT Limited consolidated financial statements, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together. The HKT Trust and HKT Limited consolidated financial statements together comprise the consolidated statement of financial position of the Group and of the HKT Limited Group and the statement of financial position of HKT Limited as at December 31, 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group and of the HKT Limited Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the HKT Trust and HKT Limited Consolidated Financial Statements

The directors of HKT Management Limited (the "Trustee-Manager") (in its capacity as the trustee-manager of HKT Trust) and the directors of the Company are responsible for the preparation of consolidated financial statements for HKT Trust and for HKT Limited that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the HKT Trust and HKT Limited consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the HKT Trust and HKT Limited consolidated financial statements give a true and fair view of the state of affairs of the Group and of the HKT Limited Group and HKT Limited as at December 31, 2014, and of the Group and HKT Limited Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 10, 2015

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong

CONSOLIDATED INCOME STATEMENT OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2014

In HK$ million	Note(s)	2013	**2014**
Turnover	6 & 7	22,832	**28,823**
Cost of sales		(10,117)	**(12,053)**
General and administrative expenses		(9,501)	**(12,416)**
Other gains, net	8	84	**99**
Finance costs, net	10	(833)	**(1,124)**
Share of results of an associate		(24)	**(35)**
Share of results of joint ventures		74	**6**
Profit before income tax	9	2,515	**3,300**
Income tax	12(a)	(16)	**(242)**
Profit for the year		2,499	**3,058**
Attributable to:			
Holders of Share Stapled Units/shares of the Company		2,460	**2,991**
Non-controlling interests		39	**67**
Profit for the year		2,499	**3,058**
Earnings per Share Stapled Unit/share of the Company		(Adjusted)	
Basic	14	36.82 cents	**42.20 cents**
		(Adjusted)	
Diluted	14	36.82 cents	**42.19 cents**

The notes on pages 68 to 152 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

Details of the distributions/dividends payable to the holders of Share Stapled Units/shareholders attributable to the profit for the year are set out in note 13.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2014

In HK$ million	Note	2013	**2014**
Profit for the year		2,499	**3,058**
Other comprehensive income			
Items that may be reclassified subsequently to consolidated income statement:			
Translation exchange differences:			
– exchange differences on translating foreign operations		(22)	**(150)**
– exchange differences on translating foreign operations transferred to consolidated income statement upon disposal		–	**(79)**
Available-for-sale financial assets:			
– changes in fair value	21	86	**(110)**
Cash flow hedges:			
– effective portion of changes in fair value		(10)	**(18)**
– transfer from equity to consolidated income statement		(53)	**(24)**
Other comprehensive income/(loss) for the year		1	**(381)**
Total comprehensive income for the year		2,500	**2,677**
Attributable to:			
– Holders of Share Stapled Units/shares of the Company		2,461	**2,610**
– Non-controlling interests		39	**67**
Total comprehensive income for the year		2,500	**2,677**

The notes on pages 68 to 152 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2014

In HK$ million		2013		
	Note(s)	Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2013		30,934	183	31,117
Comprehensive income				
Profit for the year		2,460	39	2,499
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		(22)	–	(22)
Available-for-sale financial assets:				
– changes in fair value		86	–	86
Cash flow hedges:				
– effective portion of changes in fair value		(10)	–	(10)
– transfer from equity to consolidated income statement		(53)	–	(53)
Total other comprehensive income		1	–	1
Total comprehensive income for the year		2,461	39	2,500
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes		(52)	–	(52)
Employee share-based compensation		13	–	13
Distribution/dividend paid in respect of the previous year	13	(1,385)	–	(1,385)
Interim distribution/dividend declared and paid in respect of the current year	13	(1,348)	–	(1,348)
Dividend declared and paid/payable to non-controlling shareholders of subsidiaries		–	(40)	(40)
Total transactions with equity holders		(2,772)	(40)	(2,812)
At December 31, 2013		30,623	182	30,805

In HK$ million	Note	2014 Attributable to holders of Share Stapled Units/shares of the Company	Non-controlling interests	Total equity
At January 1, 2014		**30,623**	**182**	**30,805**
Comprehensive income				
Profit for the year		**2,991**	**67**	**3,058**
Other comprehensive loss				
Items that may be reclassified subsequently to consolidated income statement:				
Translation exchange differences:				
– exchange differences on translating foreign operations		**(150)**	**–**	**(150)**
– exchange differences on translating foreign operations transferred to consolidated income statement upon disposal		**(79)**	**–**	**(79)**
Available-for-sale financial assets:				
– changes in fair value		**(110)**	**–**	**(110)**
Cash flow hedges:				
– effective portion of changes in fair value		**(18)**	**–**	**(18)**
– transfer from equity to consolidated income statement		**(24)**	**–**	**(24)**
Total other comprehensive loss		**(381)**	**–**	**(381)**
Total comprehensive income for the year		**2,610**	**67**	**2,677**
Transactions with equity holders				
Contributions by and distributions to equity holders:				
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes		**(9)**	**–**	**(9)**
Employee share-based compensation		**59**	**–**	**59**
Receipt of PCCW shares under the PCCW Subscription Scheme		**21**	**–**	**21**
Distribution/dividend paid in respect of the previous year	13	**(1,553)**	**–**	**(1,553)**
Interim distribution/dividend declared and paid in respect of the current year	13	**(1,590)**	**–**	**(1,590)**
Dividend declared and paid/payable to non-controlling shareholders of subsidiaries		**–**	**(54)**	**(54)**
Acquisition of a subsidiary	38(a)	**–**	**36**	**36**
Disposal of a subsidiary	39	**–**	**(124)**	**(124)**
Issue of Rights Share Stapled Units	28(a)	**7,771**	**–**	**7,771**
Total transactions with equity holders		**4,699**	**(142)**	**4,557**
At December 31, 2014		**37,932**	**107**	**38,039**

The notes on pages 68 to 152 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HKT TRUST AND OF HKT LIMITED

As at December 31, 2014

In HK$ million	Note	2013	2014
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	14,108	**15,489**
Interests in leasehold land	16	291	**278**
Goodwill	17	36,044	**49,655**
Intangible assets	18	3,892	**10,307**
Interest in an associate	19	207	**171**
Interests in joint ventures	20	645	**550**
Available-for-sale financial assets	21	171	**61**
Financial assets at fair value through profit or loss	22	8	**21**
Derivative financial instruments	26	67	**–**
Deferred income tax assets	30	359	**371**
Other non-current assets		556	**639**
		56,348	**77,542**
Current assets			
Prepayments, deposits and other current assets		3,259	**4,006**
Inventories	24(a)	1,018	**621**
Trade receivables, net	24(b)	3,000	**3,875**
Amounts due from related companies	5(a)	49	**76**
Derivative financial instruments	26	–	**49**
Financial assets at fair value through profit or loss	22	11	**18**
Cash and cash equivalents	32(d)	2,134	**3,613**
		9,471	**12,258**
Current liabilities			
Short-term borrowings	24(c)	–	**3,877**
Trade payables	24(d)	1,803	**1,979**
Accruals and other payables		2,403	**5,023**
Carrier licence fee liabilities	31	209	**433**
Amounts due to related companies	5(a)	136	**94**
Amounts due to fellow subsidiaries	5(a)	441	**278**
Advances from customers		1,738	**1,997**
Current income tax liabilities		427	**734**
		7,157	**14,415**
Net current assets/(liabilities)		2,314	**(2,157)**
Total assets less current liabilities		58,662	**75,385**

In HK$ million	Note	2013	**2014**
Non-current liabilities			
Long-term borrowings	25	24,022	**32,549**
Derivative financial instruments	26	405	**100**
Deferred income tax liabilities	30	1,811	**2,591**
Deferred income		951	**1,033**
Carrier licence fee liabilities	31	616	**954**
Other long-term liabilities		52	**119**
		27,857	**37,346**
Net assets		30,805	**38,039**
CAPITAL AND RESERVES			
Share capital	28	6	**8**
Reserves	29	30,617	**37,924**
Equity attributable to holders of Share Stapled Units/shares of the Company		30,623	**37,932**
Non-controlling interests		182	**107**
Total equity		30,805	**38,039**

Approved and authorized for issue by the boards of directors of HKT Management Limited and HKT Limited (collectively, the "Boards") on February 10, 2015 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 68 to 152 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

STATEMENT OF FINANCIAL POSITION OF HKT LIMITED

As at December 31, 2014

In HK$ million	Note	2013	**2014**
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	23	20,004	**27,905**
		20,004	**27,905**
Current assets			
Prepayments, deposits and other current assets		9	**7**
Amount due from a subsidiary	23(b)	7,490	**7,437**
Cash and cash equivalents	32(d)	3	**102**
		7,502	**7,546**
Current liabilities			
Accruals and other payables		1	**39**
Amounts due to subsidiaries	23(b)	93	**224**
		94	**263**
Net current assets		7,408	**7,283**
Net assets		27,412	**35,188**
CAPITAL AND RESERVES			
Share capital	28	6	**8**
Reserves	28	27,406	**35,180**
Total equity		27,412	**35,188**

Approved and authorized for issue by the Boards on February 10, 2015 and signed on behalf of the Boards by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 68 to 152 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS OF HKT TRUST AND OF HKT LIMITED

For the year ended December 31, 2014

In HK$ million	Note	2013	**2014**
NET CASH GENERATED FROM OPERATING ACTIVITIES	32(a)	7,143	**9,569**
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		15	**5**
Purchases of property, plant and equipment		(1,980)	**(2,510)**
Proceeds from disposal of a subsidiary, net	39	–	**20**
Purchases of intangible assets		(2,091)	**(3,219)**
Net outflow of cash and cash equivalents in respect of additions upon business combinations	32(b)	–	**(18,769)**
Return of investment from a joint venture		–	**11**
Loans to an associate		(52)	**(81)**
Repayment of loan from an associate		25	**25**
Loan to a joint venture		(140)	**(68)**
NET CASH USED IN INVESTING ACTIVITIES		(4,223)	**(24,586)**
FINANCING ACTIVITIES			
New borrowings raised		15,905	**51,719**
Interest paid		(703)	**(821)**
Repayments of borrowings		(15,607)	**(39,810)**
Movement in non-trade balance due (to)/from fellow subsidiaries	5(a)	(45)	**878**
Distributions/dividends paid to holders of Share Stapled Units/shareholders of the Company		(2,731)	**(3,141)**
Dividend paid to non-controlling shareholders of subsidiaries		(3)	**(91)**
Proceeds from Rights Issue, net of issuance expenses paid	28(a)	–	**7,807**
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(3,184)	**16,541**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(264)	**1,524**
Exchange differences		(3)	**(45)**
CASH AND CASH EQUIVALENTS			
Beginning of year		2,401	**2,134**
End of year	32(d)	2,134	**3,613**

The notes on pages 68 to 152 form part of the consolidated financial statements. As explained in note 1, the consolidated financial statements of HKT Trust and the consolidated financial statements of HKT Limited are presented together.

1 BASIS OF PRESENTATION

In accordance with the Trust Deed (as defined below), HKT Trust (the "HKT Trust") and HKT Limited are each required to prepare their own sets of financial statements on a consolidated basis. The HKT Trust consolidated financial statements for the year ended December 31, 2014 comprise the consolidated financial statements of the HKT Trust, HKT Limited (or the "Company") and its subsidiaries (together the "Group"), and the Group's interests in an associate and joint ventures. The HKT Limited consolidated financial statements for the year ended December 31, 2014 comprise the consolidated financial statements of HKT Limited and its subsidiaries (together the "HKT Limited Group") and the HKT Limited Group's interests in an associate and joint ventures, and the Company's statement of financial position.

The HKT Trust controls HKT Limited and the sole activity of the HKT Trust during the year ended December 31, 2014 was investing in HKT Limited. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the HKT Trust are identical to the consolidated financial results and financial position of HKT Limited with the only differences being disclosures of capital of HKT Limited. The directors of the Trustee-Manager (as defined below) and the directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the HKT Trust and the HKT Limited together. The consolidated financial statements of the HKT Trust and the consolidated financial statements of HKT Limited are presented together to the extent they are identical and are hereinafter referred as the "HKT Trust and HKT Limited consolidated financial statements".

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows, significant accounting policies and the related explanatory information are common to the HKT Trust and the Company. The HKT Limited consolidated financial statements also include the stand-alone statements of financial position of HKT Limited, and the relevant explanatory information in notes 5(a), 23, 28, 32(d), and 34 where information specific to the Company are disclosed separately.

The Group and HKT Limited Group are referred as the "Groups".

2 GENERAL INFORMATION

The HKT Trust is constituted by a Hong Kong law governed trust deed and as supplemented, amended or substituted from time to time (the "Trust Deed"), entered into between HKT Management Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the HKT Trust) and the Company. Under the Trust Deed, the Trustee-Manager has been appointed as the trustee and manager of the HKT Trust. The scope of activities of the HKT Trust specified in the Trust Deed is essentially limited to investing in the Company and all the issued and paid-up ordinary shares of the Company are held by the HKT Trust. The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law") on June 14, 2011. The Company has established a principal place of business in Hong Kong at 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Hong Kong Companies Ordinance, Cap. 32. The HKT Limited Group is principally engaged in the provision of telecommunications and related services which include local telephony, local data and broadband, international telecommunications, mobile, customer premises equipment sale, outsourcing, consulting and contact centers (the "Telecommunications Business"). It operates primarily in Hong Kong, and also serves customers in mainland China and other parts of the world.

The share stapled units (the "Share Stapled Units") structure comprises: (a) a unit in the HKT Trust; (b) a beneficial interest in a specifically identified ordinary share in the Company is "linked" to the unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the HKT Trust; and (c) a specifically identified preference share in the Company which is "stapled" to the unit. The Share Stapled Units are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The ultimate holding company of both the HKT Trust and the Company is PCCW Limited ("PCCW"), a company incorporated in Hong Kong with its shares listed on the Main Board of the Stock Exchange and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States.

These financial statements are presented in millions of units of Hong Kong dollars (HK$ million), unless otherwise stated.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The HKT Trust and HKT Limited consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term for all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. A summary of the principal accounting policies adopted by the Groups is set out below.

b. Basis of preparation of the financial statements

The following new HKFRSs are mandatory for the first time for the financial year beginning January 1, 2014, but have no material effect on the Groups' results and financial position for the current and prior accounting periods.

- HKAS 27 (2011) (Amendment), 'Separate Financial Statements' – Investment Entities.
- HKAS 32 (Amendment), 'Financial Instruments: Presentation' – Offsetting Financial Assets and Financial Liabilities.
- HKAS 36 (Amendment), 'Impairment of Assets' – Recoverable Amount Disclosures for Non-Financial Assets.
- HKAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' – Novation of Derivatives and Continuation of Hedging Accounting.
- HKFRS 10 (Amendment), 'Consolidated Financial Statements' – Investment Entities.
- HKFRS 12 (Amendment), 'Disclosure of Interests in Other Entities' – Investment Entities.
- HK(IFRIC) – Int 21, 'Levies'.

The Groups have not adopted any new or revised standard or interpretation that is not yet effective for the current accounting period, details of which are set out in note 41.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

- financial assets at fair value through profit or loss (see note 3(k)((i));
- available-for-sale financial assets (see note 3(k)(ii)); and
- derivative financial instruments (see note 3(m)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the HKT Trust and HKT Limited consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

c. Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Groups. Control exists when the Groups are exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

An interest in a subsidiary is consolidated into the HKT Trust and HKT Limited consolidated financial statements from the date that control commences until the date that control ceases.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

c. Subsidiaries and non-controlling interests *(continued)*

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Groups. The cost of an acquisition is measured as the aggregate fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Groups recognize any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 3(i)). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement. Where businesses are acquired and fair values of the net assets of the acquired business are finalized within 12 months of the acquisition date, all fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results (see note 38).

The Groups treat transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Groups. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

For subsidiaries which have accounting year ends different from the Groups, the subsidiaries prepare, for the purpose of consolidation, financial statements up to and as at the same date as the Groups.

Adjustments have been made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with the policies adopted by the Groups.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the HKT Trust and HKT Limited consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains.

In the Company's statements of financial position, interests in subsidiaries are stated at cost less impairment losses (see note 3(l)(ii)). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

d. Associates

An associate is an entity in which the Groups have significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Interest in an associate is accounted for in the HKT Trust and HKT Limited consolidated financial statements under the equity method and is initially recorded at cost. The Groups' interest in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Groups' share of the associates' net assets. The consolidated income statement includes the Groups' share of post-acquisition, post-tax results of the associate and any impairment losses for the year. The consolidated statement of comprehensive income includes the Groups' share of the post-acquisition post-tax items of the associate's other comprehensive income.

When the Groups' share of losses exceeds its interest in the associate, the Groups' interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Groups have incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Groups' interest in the associate is the carrying amount of the investment under the equity method together with the Groups' long-term interests that in substance form part of the Groups' net interest in the associate.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

d. Associates *(continued)*

Unrealized profits and losses resulting from transactions between the Groups and its associate are eliminated to the extent of the Groups' interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to the income statement where appropriate.

Adjustments have been made to the financial statements of the associate when necessary to align their accounting policies to ensure consistency with the policies adopted by the Groups.

e. Joint arrangements

The Groups have applied HKFRS 11 to all joint arrangements as of January 1, 2012. A joint arrangement is an entity which operates under a contractual arrangement between the Groups and other parties, where the contractual arrangement establishes that the Groups and one or more of the other parties share joint control over the economic activity of the entity. Under HKFRS 11, joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

The Groups classified joint arrangements as joint ventures whereby the Groups have rights to the net assets of the joint arrangement.

Investments in joint ventures are accounted for in the HKT Trust and HKT Limited consolidated financial statements under the equity method and are initially recorded at cost. The Groups' investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss and adjusted thereafter for the post-acquisition change in the Groups' share of the joint ventures' net assets. The consolidated income statement includes the Groups' share of post-acquisition, post-tax results of the joint ventures and any impairment losses for the year. The consolidated statement of comprehensive income include the Groups' share of the post-acquisition, post-tax items of the joint ventures' other comprehensive income.

When the Groups' share of losses exceeds its interest in the joint venture, the Groups' interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Groups' have incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the Groups' interest in the joint venture is the carrying amount of the investment under the equity method together with the Groups' long-term interests that in substance form part of the Groups' net investment in the joint venture.

Unrealized profits and losses resulting from transactions between the Groups and their joint ventures are eliminated to the extent of the Groups' interest in the joint ventures, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

Adjustments have been made to the financial statements of joint ventures when necessary to align their accounting policies to ensure consistency with the policies adopted by the Groups.

f. Gaining or losing control

When the Groups cease to have control any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in investor profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint arrangement or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Groups had disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the consolidated income statement.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

g. Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses (see note 3(l)(ii)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 3(h)); and

– other items of plant and equipment.

The cost of an item of property, plant and equipment comprises (i) its purchase price, (ii) any directly attributable costs of bringing the asset to its working condition and location for its intended use, and (iii) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or recognized as a separate item of property, plant and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Groups and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance and overhaul costs, are recognized in the consolidated income statement as an expense in the period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in the consolidated income statement on the date of retirement or disposal.

Projects under construction are not depreciated. Depreciation on other property, plant and equipment is calculated to write off the cost of items of property, plant and equipment, less their expected residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	Over the shorter of the unexpired term of land lease and the estimated useful lives
Exchange equipment	5 to 13 years
Transmission plant	5 to 30 years
Other plant and equipment	Over the shorter of 1 to 17 years and the term of lease

The assets' useful lives and residual values, if any, are reviewed, and adjusted if appropriate, at the end of each reporting period.

h. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Groups determine that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i. Classification of assets leased to the Groups

Leases which do not transfer substantially all the risks and rewards of ownership to the Groups are classified as operating leases.

ii. Assets leased out under operating leases

Where the Groups leases out assets under operating leases, the assets are included in the consolidated statements of financial position according to their nature and, where applicable, are depreciated in accordance with the Groups' depreciation policies, as set out in note 3(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(l)(ii). Revenue arising from operating leases is recognized in accordance with the Groups' revenue recognition policies, as set out in note 3(u)(iii).

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

h. Leased assets *(continued)*

iii. Operating lease charges

Where the Groups have the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognized in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is stated in the consolidated statements of financial position as "Interests in leasehold land" and is amortized to the consolidated income statement on a straight-line basis over the period of the lease term.

i. Goodwill

Goodwill represents the excess of the cost of a business combination or interest in an associate or a joint venture over the Groups' interest in the aggregate net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is stated in the consolidated statements of financial position at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment (see note 3(l)(ii)). In respect of the associate and joint ventures, the carrying amount of goodwill is included in the carrying amount of the interests in an associate and joint ventures.

On disposal of a CGU or part of a CGU, a joint venture and an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

j. Intangible assets (other than goodwill)

i. Customer acquisition costs

Costs incurred to acquire contractual relationships with customers are capitalized if it is probable that future economic benefits will flow from the customers to the Groups and such costs can be measured reliably. Capitalized customer acquisition costs are amortized on a straight-line basis over the minimum enforceable contractual periods. At the end of the minimum enforceable contractual period, fully amortized customer acquisition costs will be written off.

In the event that a customer terminates the contract prior to the end of the minimum enforceable contractual period, the unamortized customer acquisition cost will be written off immediately in the consolidated income statement.

ii. Carrier licences

The carrier licences to establish and maintain the telecommunication network and to provide telecommunication services are recorded as intangible assets. Upon the issuance of the licence, the cost thereof, which is the discounted value of the minimum annual fees payable over the period of the licence and directly attributable costs of preparing the asset for its intended use, is recorded together with the related obligations. Where the Groups have the right to return a licence and expect to do so, the asset and the related obligation recorded reflect the expected period that the licence will be held. Amortization is provided on a straight-line basis over the estimated useful life of the licence, commencing from the date of launch of the relevant telecommunication services.

The difference between the discounted value and the total of the minimum annual fee payments represents the effective cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using the effective interest method.

Variable annual payments on top of the minimum annual payments, if any, are recognized in the consolidated income statement as incurred.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

j. Intangible assets (other than goodwill) *(continued)*

iii. Software

Costs incurred to acquire, develop or enhance scientific or technical knowledge, design and implementation of new process or systems, licences, intellectual property, market knowledge and trademarks are capitalized as "intangible assets" if it is identifiable and the entity has power to obtain future economic benefits flowing from the underlying resource.

Development costs that are directly attributable to the design and testing of the identifiable software are capitalized as intangible assets if the following criteria are met:

– it is technically feasible to complete the software so that it will be available for use;

– adequate technical, financial and other resources are available to complete the development and to use the software;

– the costs attributable to acquisition, development and enhancement of the software can be reliably measured; and

– the Groups have power to obtain future economic benefits flowing from the underlying source.

Development costs that do not meet the above criteria are expensed in the consolidated income statement as incurred.

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of 8 years.

iv. Other intangible assets

Other intangible assets that are acquired by the Groups are stated in the consolidated statements of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 3(l)(ii)). Expenditures on internally generated goodwill and brands are recognized as expenses in the period in which they are incurred.

Amortization of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over their estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

Trademarks	20 years
Customer base	1 to 10 years
Programme costs	Over the terms of the contract period

The assets' useful lives and their amortization method are reviewed annually.

k. Investments in equity securities

The Groups classify its investments in equity securities, other than interests in subsidiaries and interests in an associate and joint ventures, as (i) financial assets at fair value through profit or loss, or (ii) available-for-sale financial assets.

Investments in equity securities are initially recognized at fair value plus transaction costs, except as indicated otherwise below. The fair value of quoted investments is based on current bid price. The investments are subsequently accounted for based on their classification as set out below:

i. Financial assets at fair value through profit or loss

This category comprises financial assets designated as fair value through profit or loss at inception.

Financial assets at fair value through profit or loss are classified as current assets, if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period. Any attributable transaction costs are recognized in the consolidated income statement as incurred.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

k. Investments in equity securities *(continued)*

i. Financial assets at fair value through profit or loss *(continued)*

At the end of each reporting period, the fair value is re-measured based on their current bid prices in an active market, with any unrealized holding gains or losses arising from the changes in fair value being recognized in the consolidated income statement in the period in which they arise. The net gain or loss recognized in the consolidated income statement does not include any interest earned or dividends on the financial assets as these are recognized in accordance with the policies set out in notes 3(u)(v) and 3(u)(vii) respectively. Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the statement of cash flows.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables. They are included in non-current assets unless the Groups intend to dispose of the investment within 12 months from the end of the reporting period.

At the end of each reporting period, the fair value of available-for-sale financial assets is re-measured, with any unrealized holding gains or losses arising from the changes in fair value being recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity, except for impairment losses (see note 3(l)(i)) and, in the case of monetary items, foreign exchange gains and losses which are recognized directly in the consolidated income statement. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in note 3(u)(vii). When the investments are derecognized or impaired (see note 3(l)(i)), the cumulative gain or loss previously recognized directly in the equity is recognized in the consolidated income statement.

Investments in equity securities are recognized or derecognized on the date the Groups commit to purchase or sell the investments or they expire.

l. Impairment of assets

i. Impairment of investments in equity securities and other receivables

Investments in equity securities (other than interests in subsidiaries and interests in an associate and joint ventures: see note 3(l)(ii)) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Groups about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets.

If any such evidence exists, any impairment loss is determined and recognized as follows:

– For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

l. Impairment of assets *(continued)*

i. Impairment of investments in equity securities and other receivables *(continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

– For available-for-sale financial assets, when there is an impairment, the cumulative loss, if any, that had been recognized in other comprehensive income is reclassified from equity in the consolidated income statement as a reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the consolidated income statement.

Impairment losses recognized in the consolidated income statement in respect of equity instruments classified as available-for-sale financial assets are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income and accumulated separately in the available-for-sale financial assets reserve under equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade receivables, whose recovery are considered doubtful but not remote. In this case, the impairment loss for doubtful debts is recorded using an allowance account. When the Groups are satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in the consolidated income statement.

ii. Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– interests in leasehold land;

– intangible assets;

– interests in an associate and joint ventures;

– goodwill; and

– interests in subsidiaries (at Company level).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

l. Impairment of assets *(continued)*

ii. Impairment of other assets *(continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less cost of disposal and value in use. Fair value less cost of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

– Recognition of impairment losses

An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not allowed to be reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the consolidated income statement in the period in which the reversals are recognized.

iii. Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Groups are required to prepare an interim financial report in compliance with HKAS 34 "Interim Financial Reporting", in respect of the first six months of the financial year. At the end of the interim period, the Groups apply the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(l)(i) and 3(l)(ii)).

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

m. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The gain or loss on remeasurement to fair value is recognized immediately in the consolidated income statement, except where the derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 3(n)).

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item has a maturity of more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

n. Hedging

i. Fair value hedge

Where a derivative financial instrument is designated as a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in the consolidated income statement within "Finance costs, net", together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n. Hedging *(continued)*

i. Fair value hedge *(continued)*

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Groups revoke designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the consolidated income statement over the residual period to maturity.

ii. Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognized immediately in the consolidated income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognized in the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when the interest income or expense is recognized).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognized in the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Groups revoke designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the consolidated income statement.

o. Inventories

Inventories consist of trading inventories, work-in-progress and consumable inventories.

Trading inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Work-in-progress is stated at the lower of cost, which comprises labor, materials and overheads where appropriate, and the net realizable value.

Consumable inventories, held for use in the maintenance and expansion of the Groups' telecommunications systems, are stated at cost less provision for deterioration and obsolescence.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

p. Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(l)(i)).

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

q. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions (other than restricted cash), and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition, less bank overdrafts that are repayable on demand and form an integral part of the Groups' cash management.

r. Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost using the effective interest method.

s. Borrowings

Borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortized cost with any difference between the amount initially recognized, being the proceeds net of transaction costs, and the redemption value being recognized in the consolidated income statement over the period of the borrowings, using the effective interest method.

t. Provisions and contingent liabilities

Provisions are recognized when (i) the Groups have a present legal or constructive obligation arising as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. The increase in provision due to the passage of time is recognized as interest expense.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

u. Revenue recognition

Provided it is probable that the economic benefits will flow to the Groups and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the consolidated income statement as follows:

i. Telecommunications and other services

Telecommunications services comprise the fixed line and mobile telecommunications network services, and equipment businesses mainly in Hong Kong.

Telecommunications service revenue based on usage of the Groups' network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the applicable fixed period.

Up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the estimated customer relationship period.

Other service income is recognized when services are rendered to customers.

ii. Sales of goods

Revenue from the sales of goods is recognized when goods are delivered to customers which generally coincides with the time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recorded after deduction of any trade discounts.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

u. Revenue recognition *(continued)*

iii. Rental income from operating leases

Rental income receivable under operating leases is recognized in the consolidated income statement in equal installments over the periods covered by the lease term. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

iv. Contract revenue

Revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent that it is probable the contract costs incurred will be recoverable.

v. Interest income

Interest income is recognized on a time-apportioned basis using the effective interest method.

vi. Commission income

Commission income is recognized when entitlement to the income is ascertained.

vii. Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

v. Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Discounts or premiums relating to borrowings, and ancillary costs incurred in connection with arranging borrowings, to the extent that they are regarded as adjustments to interest costs, are recognized as expenses over the period of the borrowing using the effective interest method.

w. Income tax

i. Income tax for the year comprises current income tax and movements in deferred income tax assets and liabilities. Current income tax and movements in deferred income tax assets and liabilities are recognized in the consolidated income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts are recognized in other comprehensive income or directly in equity, respectively.

ii. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to income tax payable in respect of previous year.

iii. Deferred income tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred income tax assets also arise from unused tax losses and unused tax credits.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

w. Income tax *(continued)*

All deferred income tax liabilities, and all deferred income tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred income tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred income tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred income tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred income tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized and the deferred income tax liability is settled. Deferred income tax assets and liabilities are not discounted.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

iv. Current income tax balances and deferred income tax balances, and movements therein, are presented separately from each other and are not offset. Current income tax assets are offset against current income tax liabilities, and deferred income tax assets against deferred income tax liabilities, if the Groups have the legally enforceable right to set off current income tax assets against current income tax liabilities and the following additional conditions are met:

- in the case of current income tax assets and liabilities, the Groups intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred income tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered, intend to realize the current income tax assets and settle the current income tax liabilities on a net basis or realize and settle simultaneously.

x. Employee benefits

i. Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

x. Employee benefits *(continued)*

ii. Retirement benefits

The Groups operate defined contribution retirement schemes (including the Mandatory Provident Fund) for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant companies in the Groups and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries if applicable.

For defined contribution plans, the Groups pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Groups have no further payment obligations once the contributions have been paid.

The Groups' contributions to the defined contribution schemes are recognized as an expense in the consolidated income statement in the period to which the contributions relate.

iii. Share-based payments

PCCW and the Groups operate share option schemes where employees of the Groups (and including directors) are granted options to acquire shares of PCCW and Share Stapled Units at specified exercise prices. The fair value of the employee services received in exchange for the grant of the options is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the options granted is measured at grant date using the trinomial option pricing model, taking into account the terms and conditions upon which the options were granted, and spread over the respective vesting period during which the employees become unconditionally entitled to the options. During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognized in the employee share-based compensation reserve until either the share options are exercised (when it is transferred to the share premium account) or the share options expire (when it is released directly to retained profit).

The boards of directors of the Trustee-Manager and the Company may also grant Share Stapled Units to employees at nil consideration under the Company's Share Stapled Units award schemes, under which the awarded shares are either newly issued at issue price (the "HKT Share Stapled Units Subscription Scheme") or are purchased from the open market (the "HKT Share Stapled Units Purchase Scheme"). The cost of Share Stapled Units purchased from the open market is recognized in equity as treasury stock. The fair value of the employee services received in exchange for the grant of Share Stapled Units under both schemes is recognized as staff costs in the consolidated income statement with a corresponding increase in an employee share-based compensation reserve under equity. The fair value of the awarded Share Stapled Units is measured by the quoted market price of the shares at grant date and is charged to the consolidated income statement over the respective vesting period. During the vesting period, the number of awarded Share Stapled Units that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited to the consolidated income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded Share Stapled Units that vest (with a corresponding adjustment to the employee share-based compensation reserve) and the cost of awarded Share Stapled Units recognized in equity as treasury stock is transferred to the employee share-based compensation reserve.

Share Stapled Units granted to employees of the Groups by the principal holder of Share Stapled Units are accounted for in accordance with the same policy for the awarded Share Stapled Units under the Share Stapled Units award schemes as described above. The fair value of the Share Stapled Units granted is measured by the quoted market price of the Share Stapled Units at grant date and is charged to the consolidated income statement over the respective vesting period.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

x. Employee benefits *(continued)*

iii. Share-based payments *(continued)*

The board of directors of PCCW may also grant shares of PCCW to employees of the participating subsidiaries of PCCW at nil consideration under its share award schemes, under which the awarded PCCW shares are either newly issued at par value (the "PCCW Subscription Scheme") or are purchased from the open market (the "PCCW Purchase Scheme").

Awards under the PCCW Purchase Scheme and the PCCW Subscription Scheme, are accounted for as cash-settle share-based payments. The fair value of the awarded PCCW shares represents the quoted market price of PCCW shares purchased from the open market under the PCCW Purchase Scheme and the issue price of PCCW shares under the PCCW Subscription Scheme are recognized as financial assets at fair value through profit and loss, and subsequently measured at fair value. The fair value of the employee services received in exchange for the grant of PCCW shares are recognized as staff costs in the income statement over the respective vesting period with a corresponding obligation being recognized. During the vesting period, the number of awarded PCCW shares that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged or credited in the income statement for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the obligation. On vesting date, the amount recognized as staff costs is adjusted to reflect the actual number of awarded PCCW shares that vest (with a corresponding adjustment to the obligation) and the carrying amount of awarded PCCW shares recognized in the financial assets at fair value through profit and loss is offset with the obligation.

Shares of PCCW granted to employees of the Groups by the principal shareholder of PCCW are accounted for in accordance with the same policy for the awarded shares under share award schemes as described above. The fair value of the shares granted by principal shareholder is measured by the quoted market price of the PCCW shares at grant date and is charged to the consolidated income statement over the respective vesting period, with a corresponding increase in the capital contribution from shareholder in respect of employee share-based compensation under equity.

iv. Termination benefits

Termination benefits are recognized only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or, after individual employees have been advised of the specific terms.

y. Translation of foreign currencies

Items included in the financial statements of each of the Groups' entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The HKT Trust and HKT Limited consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Groups' functional and the Groups' presentation currency.

Foreign currency transactions during the year are translated to functional currencies at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in the consolidated income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising on translation of non-monetary assets and liabilities are reported as part of the fair value gain or loss in the consolidated income statement. Exchange differences arising on translation of non-monetary assets and liabilities, such as available-for-sale financial assets, are included in the fair value gain or loss in the available-for-sale financial assets reserve under equity.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Statement of financial position items of foreign operations, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the currency translation reserve under equity.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

y. Translation of foreign currencies *(continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, if any, are taken to other comprehensive income and accumulated separately in the currency translation reserve under equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in the currency translation reserve under equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

z. Related parties

For the purposes of the HKT Trust and HKT Limited consolidated financial statements, a party is considered to be related to the Groups if:

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Groups or exercise significant influence over the Groups in making financial and operating policy decisions, or has joint control over the Groups;

ii. the Groups and the party are subject to common control;

iii. the party is an associate of the Groups or a joint venture in which the Groups is a venturer;

iv. the party is a member of key management personnel of the Groups or the Groups' parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v. the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such individuals; or

vi. the party is a post-employment benefit plan which is for the benefit of employees of the Groups or of any entity that is a related party of the Groups.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

aa. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Groups' senior executive management.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. Inter-segment transactions are eliminated in full in preparing the HKT Trust and HKT Limited consolidated financial statements.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (including property, plant and equipment, and interests in leasehold land) that are expected to be used for more than one year.

bb. Dividend/distribution to the holders of Share Stapled Units/shares of the Company

Dividend/distribution to the holders of Share Stapled Units/shares of the Company are recognized as a liability in the HKT Trust and HKT Limited consolidated financial statements and the Company's financial statement in the period in which the dividends/distributions are approved by the Boards or holders of Share Stapled Units/shares of the Company, where appropriate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The Groups make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Notes 17 and 34 contain information about the assumptions and the risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are discussed below:

i. Recognition and fair value of identifiable intangible assets through business combination

The Groups apply the acquisition method of accounting to account for acquisitions of businesses. In business combinations of multiple companies or businesses, HKFRS 3 (revised), "Business Combinations", requires that one of the businesses that existed before the combination shall be identified as the accounting acquirer on the basis of the evidence available. Identification of the accounting acquirer requires significant judgement and it involves the considerations of the relative size of the combining businesses' revenues and assets and the management structure to determine the appropriate accounting acquirer.

The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, equity instruments issued, and costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair values as of the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgement. The most significant variables in these valuations are discount rates, terminal values, the number of years on which the cash flow projections are based, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

Upon an acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognized). The fair values of these intangible assets are dependent on estimates of attributable future revenue, margin, cash flow, useful lives and discount rate used.

ii. Impairment of assets (other than investments in equity securities and other receivables)

At the end of each reporting period, the Groups review internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- interests in leasehold land;
- intangible assets;
- interests in an associate and joint ventures;
- goodwill; and
- interests in subsidiaries (at Company level).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

ii. Impairment of assets (other than investments in equity securities and other receivables) *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognized in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The sources utilized to identify indications of impairment are often subjective in nature and the Groups are required to use judgement in applying such information to its business. The Groups' interpretation of this information has a direct impact on whether an impairment assessment is performed as at the end of any given reporting period. Such information is particularly significant as it relates to the Groups' telecommunications services and infrastructure businesses in Hong Kong.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Groups to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Groups' assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Groups may perform such assessment utilizing internal resources or the Groups may engage external advisors to counsel the Groups in making this assessment. Regardless of the resources utilized, the Groups are required to make many assumptions to make this assessment, including the utilization of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

iii. Revenue recognition

Telecommunications service revenue based on usage of the Groups' network and facilities is recognized when the services are rendered. Telecommunications revenue for services provided for fixed periods is recognized on a straight-line basis over the respective period. In addition, up-front fees received for installation of equipment and activation of customer service are deferred and recognized over the expected customer relationship period. The Groups are required to exercise considerable judgement in revenue recognition particularly in the areas of customer discounts and customer disputes. Significant changes in management estimates may result in material revenue adjustments.

The Groups offer certain arrangements whereby a customer can purchase telecommunications equipment together with a fixed period of telecommunications service arrangement. When such multiple-element arrangements exist, the amount recognized as revenue upon the sale of the telecommunications equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement taken as a whole, is recognized over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Where the Groups are unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Groups determine the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

iv. Deferred income tax

While deferred income tax liabilities are provided in full on all taxable temporary differences, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred income tax assets that need to be recognized, the Groups consider future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Groups' estimate of projected future taxable income and benefits from available tax strategies are changed, or changes in current income tax regulations are enacted that would impact the timing or extent of the Groups' ability to utilize the tax benefits of net operating loss carry-forwards in the future, adjustments to the recorded amount of net deferred income tax assets and income tax expense would be made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

v. Current income tax

The Groups make a provision for current income tax based on estimated taxable income for the year. The estimated income tax liabilities are primarily computed based on the tax computations as prepared by the Groups. Nevertheless, from time to time, there are cases of disagreements with the tax authorities of Hong Kong and elsewhere on the tax treatment of items included in the tax computations and certain non-routine transactions. If the Groups consider it probable that these disputes or judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

vi. Useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Groups have significant property, plant and equipment and intangible assets (other than goodwill). The Groups are required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortization charges for each reporting period.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Groups' strategies. The Groups perform annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends and rapid advancement in technology. The Groups extend or shorten the useful lives and/or makes impairment provisions according to the results of the review.

During the year ended December 31, 2014, the Groups performed a review to reassess the useful lives of certain property, plant and equipment of the Groups based on the expectations of the Groups' operational management and technological trends. The reassessment has resulted in a change in the estimated useful lives of these assets. The Groups consider this to be a change in accounting estimate and has therefore accounted for the change prospectively from July 1, 2014. As a result of this change in accounting estimate, the Groups' profit for the year ended December 31, 2014 decreased by HK$770 million and the net assets as at December 31, 2014 decreased by HK$770 million.

vii. Recognition of intangible asset – carrier licences

In order to measure the intangible assets, HKAS 39 "Financial Instruments: Recognition and Measurement" is applied for recognition of the minimum annual fee and royalty payments as they constitute contractual obligations to deliver cash and, hence, should be considered as financial liabilities. To establish the fair value of the minimum annual fee and royalty payments for the right of use of the carrier licences, the discount rate used is an indicative incremental borrowing rate estimated by the Groups. Had a different discount rate been used to determine the fair value, the Groups' result of operations and financial position could be materially different.

viii. Consolidation of entities in which the Groups hold less than 50% equity interest

The directors of the Groups made significant judgements that Unihub China Information Technology Company Limited is controlled by the Groups before disposal in December 2014 (see note 39), even though the Groups held less than 50% equity interest of the subsidiary as the Groups owned more than one half of the shareholders' voting rights and/or more than one half of the voting rights in the board of directors during the year before disposal.

ix. Classification of joint arrangements

The Groups have made investments in joint arrangements in respect of which the partners' profit-sharing ratios during the joint venture period and share of net assets upon the expiration of the joint venture period may not be in proportion to their equity ratios, but are as defined in the respective joint venture contracts. Therefore these joint arrangements are classified as joint ventures of the Groups.

5 RELATED PARTY TRANSACTIONS

PCCW is the controlling holder of Share Stapled Units. CAS Holding No. 1 Limited and PCCW are the immediate and ultimate holding companies of the Company respectively.

During the year, the Groups had the following significant transactions with related parties:

In HK$ million	The Groups	
	2013	**2014**
Telecommunications service fees and systems integration charges received or receivable from a substantial shareholder of PCCW	249	**187**
Telecommunications service fees paid or payable to a substantial shareholder of PCCW	127	**121**
Telecommunications service fees and interest income received or receivable from joint ventures	33	**68**
Telecommunications service fees, outsourcing fees and rental charges paid or payable to joint ventures	287	**293**
Consultancy service charges and interest income received or receivable from an associate	18	**20**
Telecommunications service fees, IT and logistics charges, management fee and other recharge costs received or receivable from fellow subsidiaries	774	**642**
Telecommunications service fees, IT and logistics charges, system development and integration charges, consultancy fee, management fee and other recharged costs paid or payable to fellow subsidiaries	1,491	**1,642**
Rent and facilities management charges paid or payable to fellow subsidiaries	128	**129**

The above transactions were carried out after negotiations between the Groups and the related parties in the ordinary course of business and on the basis of estimated market value as determined by the directors. In respect of transactions for which the price or volume has not yet been agreed with the relevant related parties, the directors have determined the relevant amounts based on their best estimation.

a. Balances with related companies and fellow subsidiaries

The balances included in the net amounts due to fellow subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2013 and 2014.

The balances included in the amounts due to related companies are unsecured, non-interest bearing and have no fixed repayment terms as at December 31, 2013 and 2014.

In HK$ million	The Groups		The Company	
	2013	**2014**	2013	**2014**
Amounts due (to)/from fellow subsidiaries (notes 32(c))				
– Trade balance	(465)	**521**	–	**–**
– Non-trade balance	24	**(799)**	–	**–**
	(441)	**(278)**	–	**–**
Amounts due from related companies				
– Trade balance	49	**76**	–	**–**
Amounts due to related companies				
– Trade balance	(136)	**(94)**	–	**–**
	(87)	**(18)**	–	**–**

5 RELATED PARTY TRANSACTIONS *(CONTINUED)*

b. Details of key management compensation

In HK$ million	The Groups 2013	**2014**
Salaries and other short-term employee benefits	52	**72**
Post-employment benefits	2	**2**
	54	**74**

6 TURNOVER

In HK$ million	The Groups 2013	**2014**
Telecommunications and other services revenue	20,257	**25,003**
Sales of goods	2,536	**3,775**
Rental income	39	**45**
	22,832	**28,823**

7 SEGMENT INFORMATION

The CODM is the Groups' senior executive management. The CODM reviews the Groups' internal reporting in order to assess performance and allocate resources and the segment information is reported below in accordance with this internal reporting.

The CODM considers the business primarily from the product perspective. From a product perspective, management assesses the performance of the following segments:

– Telecommunications Services ("TSS") is the leading provider of telecommunications products and services including local telephony, broadband access services, local and international data, international direct dial, sales of equipment, technical, maintenance and subcontracting services and teleservices businesses.

– Mobile includes the Groups' mobile telecommunications businesses in Hong Kong.

– Other businesses of the Groups primarily comprise Unihub China Information Technology Company Limited, which provides network integration and related services to telecommunications operators in the PRC.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"). EBITDA represents earnings before interest income, finance costs, income tax, depreciation of property, plant and equipment, amortization of land lease premium and intangible assets, gain/loss on disposal of property, plant and equipment, and interests in leasehold land, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interest in an associate and joint ventures and the Groups' share of results of an associate and joint ventures.

Segment revenue, expense and segment performance include transactions between segments. Inter-segment pricing is based on similar terms as those available to other external parties for similar services. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

7 SEGMENT INFORMATION *(CONTINUED)*

Information regarding the Groups' reportable segments as provided to the Groups' CODM is set out below:

In HK$ million	The Groups 2013 TSS	Mobile	Other businesses	Eliminations	Total
Revenue					
External revenue	18,773	3,371	688	–	22,832
Inter-segment revenue	478	–	–	(478)	–
Total revenue	19,251	3,371	688	(478)	22,832
Results					
EBITDA	7,235	880	(214)	–	7,901
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	1,575	361	89	–	2,025

In HK$ million	The Groups **2014** **TSS**	**Mobile**	**Other businesses**	**Eliminations**	**Total**
Revenue					
External revenue	**19,309**	**8,950**	**564**	**–**	**28,823**
Inter-segment revenue	**604**	**–**	**–**	**(604)**	**–**
Total revenue	**19,913**	**8,950**	**564**	**(604)**	**28,823**
Results					
EBITDA	**7,362**	**3,147**	**(267)**	**–**	**10,242**
Other information					
Capital expenditure (including property, plant and equipment and interests in leasehold land) incurred during the year, excluding additions upon business combinations	**1,487**	**959**	**83**	**–**	**2,529**

During the year ended December 31, 2014, the Groups completed an internal reorganization in connection with the acquisition of CSL Holdings Limited (formerly known as CSL New World Mobility Limited) and its subsidiaries. As a result, management has made changes to the Groups' internal reporting that caused changes to reportable segments and segment presentation. The prior year ended December 31, 2013 segment information has been restated to conform with the revised presentation.

7 SEGMENT INFORMATION *(CONTINUED)*

A reconciliation of total segment EBITDA to profit before income tax is provided as follows:

In HK$ million	The Groups 2013	**2014**
Total segment EBITDA	7,901	**10,242**
Gain/(loss) on disposals of property, plant and equipment, net	13	**(2)**
Depreciation and amortization	(4,700)	**(5,886)**
Other gains, net	84	**99**
Finance costs, net	(833)	**(1,124)**
Share of results of joint ventures	74	**6**
Share of results of an associate	(24)	**(35)**
Profit before income tax	2,515	**3,300**

The following table sets out information about the geographical location of the Groups' revenue from external customers. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

In HK$ million	The Groups 2013	**2014**
Hong Kong	19,048	**22,265**
The PRC (excluding Hong Kong) and Taiwan, China	1,375	**1,436**
Others	2,409	**5,122**
	22,832	**28,823**

The total non-current assets other than financial instruments and deferred income tax assets located in Hong Kong are HK$74,698 million as at December 31, 2014 (2013: HK$53,023 million). The total of these non-current assets located in other countries are HK$2,391 million as at December 31, 2014 (2013: HK$2,720 million).

8 OTHER GAINS, NET

In HK$ million	The Groups 2013	**2014**
Net gain on cash flow hedging instruments transferred from equity	21	**22**
Net gain on fair value hedging instruments	42	**47**
Recovery of impairment loss on an interest in a joint venture	22	**–**
Impairment loss on an interest in an associate	–	**(52)**
Gain on disposal of interest in a subsidiary *(note 39)*	–	**55**
Others	(1)	**27**
	84	**99**

9 PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging and crediting the following:

a. Staff costs

In HK$ million	The Groups 2013	**2014**
Salaries, bonuses and other benefits	1,756	**2,211**
Share-based compensation expenses	24	**78**
Retirement costs for staff under defined contribution retirement schemes	206	**139**
	1,986	**2,428**

b. Other items

In HK$ million	The Groups 2013	**2014**
Crediting:		
Gross rental income	39	**45**
Charging:		
Impairment loss for doubtful debts	129	**164**
(Gain)/Loss on disposals of property, plant and equipment, net	(13)	**2**
(Write-back of provision)/provision for inventory obsolescence	(8)	**10**
Depreciation of property, plant and equipment	2,076	**3,071**
Amortization of land lease premium	12	**13**
Amortization of intangible assets	2,612	**2,802**
Cost of inventories sold	2,394	**3,645**
Cost of sales, excluding inventories sold	7,723	**8,408**
Exchange (gains)/losses, net	(8)	**6**
Cash flow hedges: transferred from equity	(10)	**(3)**
Auditor's remuneration	12	**13**
Operating lease rental		
– equipment	71	**100**
– other assets (including property rentals)	835	**1,295**

10 FINANCE COSTS, NET

In HK$ million	The Groups 2013	**2014**
Interest paid/payable for:		
Overdrafts and bank borrowings wholly repayable within 5 years	(301)	**(586)**
Other borrowings wholly repayable within 5 years	(467)	**(370)**
Other borrowings not wholly repayable within 5 years	(100)	**(122)**
Notional accretion on carrier licence fee liabilities	(60)	**(110)**
Other borrowing costs	(6)	**(3)**
Cash flow hedges: transferred from equity	(1)	**(1)**
Gains/(losses) on fair value hedges *(note (a))*	5	**(4)**
	(930)	**(1,196)**
Interest capitalized in property, plant and equipment *(note (b))*	45	**19**
Total finance costs	(885)	**(1,177)**
Interest income	52	**53**
Finance costs, net	(833)	**(1,124)**

a. Gains/(losses) on fair value hedges represents fair value gain on derivative financial instruments on fair value hedges of HK$305 million (2013: loss of HK$457 million) and fair value debit adjustment of borrowings attributable to interest rate risk of HK$309 million (2013: credit of HK$462 million).

b. The capitalization rate used to determine the amount of interest eligible for capitalization ranged from 3.63% to 3.77% for the year ended December 31, 2014 (2013: from 3.68% to 4.50%).

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Directors' emoluments – cash and cash equivalents paid/payable

In HK$ million	The Groups 2013					
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions	Share-based[2] compensation	Total
Executive directors						
Li Tzar Kai, Richard	–	–	–	–	–	–
Alexander Anthony Arena	–	18.75[3]	11.36	1.41	–	31.52
Hui Hon Hing, Susanna	–	5.23	4.92	0.40	–	10.55
Non-executive directors						
Peter Anthony Allen	–	–	–	–	–	–
Chung Cho Yee, Mico	0.22	–	–	–	–	0.22
Lu Yimin	0.22[4]	–	–	–	–	0.22
Li Fushen	0.22[5]	–	–	–	–	0.22
Independent non-executive directors						
Sir Rogerio (Roger) Hyndman Lobo	0.33[6]	–	–	–	–	0.33
Professor Chang Hsin Kang	0.22	–	–	–	–	0.22
The Hon Raymond George Hardenbergh Seitz	0.33[7]	0.53	–	–	–	0.86
Sunil Varma	0.33[8]	–	–	–	–	0.33
	1.87	24.51	16.28	1.81	–	44.47

Notes:

1 Bonus amounts shown above represent the portion of 2012 bonuses that were paid in 2013.

2 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2013 for respective directors under the share award schemes.

3 Excludes remuneration for duties performed for related companies.

4 Fee receivable as a non-executive director in 2013 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited.

5 Fee receivable as a non-executive director in 2013 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited.

6 Includes HK$109,200 fee as Chairman of Nomination Committee.

7 Includes HK$109,200 fee as Chairman of Remuneration Committee.

8 Includes HK$109,200 fee as Chairman of Audit Committee.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

a. Directors' emoluments – cash and cash equivalents paid/payable *(continued)*

In HK$ million	The Groups 2014					
	Directors' fees	Salaries, allowances and benefits in kind	Bonuses[1]	Retirement scheme contributions	Share-based[2] compensation	Total
Executive directors						
Li Tzar Kai, Richard	–	–	–	–	–	–
Alexander Anthony Arena	–	19.73[3]	12.24	1.48	8.24	41.69
Hui Hon Hing, Susanna	–	5.51	3.45	0.42	4.24	13.62
Non-executive directors						
Srinivas Bangalore Gangaiah[4]	–	–	–	–	–	–
Peter Anthony Allen	–	–	–	–	–	–
Chung Cho Yee, Mico	0.22	–	–	–	–	0.22
Lu Yimin	0.22[5]	–	–	–	–	0.22
Li Fushen	0.22[6]	–	–	–	–	0.22
Independent non-executive directors						
Sir Rogerio (Roger) Hyndman Lobo[7]	0.12[8]	–	–	–	–	0.12
Professor Chang Hsin Kang	0.22	–	–	–	–	0.22
The Hon Raymond George Hardenbergh Seitz	0.33[9]	0.53	–	–	–	0.86
Sunil Varma	0.33[10]	–	–	–	–	0.33
Aman Mehta[11]	0.21[12]	–	–	–	–	0.21
	1.87	25.77	15.69	1.90	12.48	57.71

Notes:

1 Bonus amounts shown above represent the portion of 2013 bonuses that were paid in 2014.
2 Share-based compensation amounts shown above represent the aggregate fair values at the respective award dates of the PCCW Shares and Share Stapled Units vested in 2014 for respective directors under the share award schemes.
3 Excludes remuneration for duties performed for related companies.
4 Appointed as a non-executive director with effect from August 5, 2014.
5 Fee receivable as a non-executive director in 2014 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Lu Yimin and China United Network Communications Group Company Limited.
6 Fee receivable as a non-executive director in 2014 was surrendered to a subsidiary of China United Network Communications Group Company Limited in accordance with an arrangement between Mr Li Fushen and China United Network Communications Group Company Limited.
7 Retired as an independent non-executive director with effect from May 8, 2014.
8 Includes HK$38,748 fee as Chairman of Nomination Committee.
9 Includes HK$109,200 fee as Chairman of Remuneration Committee.
10 Includes HK$109,200 fee as Chairman of Audit Committee.
11 Appointed as an independent non-executive director with effect from May 8, 2014.
12 Includes HK$70,756 fee as Chairman of Nomination Committee.

11 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

b. Individuals with highest emoluments

i. Of the five individuals with the highest emoluments, two (2013: two) are directors of the Company and the Trustee-Manager whose emoluments are disclosed in note 11(a). The emoluments in respect of the three (2013: three) non-director individuals for the year ended December 31, 2014 were as follows:

In HK$ million	The Groups 2013	**2014**
Salaries, allowances and benefits in kind	10.27	**10.67**
Bonuses	2.83	**3.88**
Retirement scheme contributions	0.82	**1.05**
Share-based compensation	0.29	**1.21**
	14.21	**16.81**

ii. The emoluments of the three (2013: three) non-director individuals for the year ended December 31, 2014 were within the following emolument ranges:

	The Groups Number of individuals 2013	**2014**
HK$3,500,001 – HK$4,000,000	1	**–**
HK$4,000,001 – HK$4,500,000	–	**–**
HK$4,500,001 – HK$5,000,000	1	**–**
HK$5,000,001 – HK$5,500,000	1	**1**
HK$5,500,001 – HK$6,000,000	–	**2**
	3	**3**

12 INCOME TAX

a. Income tax in the consolidated income statement represents:

In HK$ million	The Groups 2013	**2014**
Hong Kong profits tax		
– provision for current year	365	**348**
Overseas tax		
– provision for current year	39	**47**
– underprovision/(overprovision) for prior year	7	**(2)**
Movement of deferred income tax *(note 30(a))*	(395)	**(151)**
	16	**242**

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year.

Overseas tax has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the respective jurisdictions.

12 INCOME TAX *(CONTINUED)*

b. Reconciliation between income tax expense and accounting profit at applicable tax rate:

In HK$ million	The Groups 2013	**2014**
Profit before income tax	2,515	**3,300**
Notional tax on profit before income tax, calculated at applicable tax rate	415	**545**
Effect of different tax rates of subsidiaries operating overseas	15	**10**
Income not subject to tax	(6)	**(19)**
Expenses not deductible for tax purposes	25	**1**
Tax losses not recognized	15	**7**
Underprovision/(overprovision) in respect of prior years	7	**(2)**
Utilization of previously unrecognized tax losses	(88)	**(305)**
Recognition of previously unrecognized tax losses	(362)	**–**
Recognition of previously unrecognized temporary differences	3	**–**
(Income not subject to tax)/loss not deductible for an associate and joint ventures	(8)	**5**
Income tax expense	16	**242**

The change in the effective tax rate for the year ended December 31, 2014 comparing with 2013 was mainly due to the one-off effect of the recognition of previously unrecognized tax losses in 2013.

13 DISTRIBUTIONS/DIVIDENDS

In HK$ million	2013	**2014**
Interim distribution/dividend declared and paid in respect of current year of 21 HK cents (2013: 21 HK cents) per Share Stapled Unit/ordinary share of the Company	1,348	**1,590**
Less: Distribution/dividend for Share Stapled Units/shares held by the HKT Share Stapled Units Award Schemes	(1)	**(1)**
	1,347	**1,589**
Final distribution/second interim dividend declared in respect of previous financial year, approved and paid during the year of 24.21 HK cents (2013: final distribution/dividend of 21.58 HK cents) per Share Stapled Unit/ordinary share of the Company	1,385	**1,553**
Less: Distribution/dividend for Share Stapled Units/shares held by the HKT Share Stapled Units Award Schemes	(1)	**(1)**
	1,384	**1,552**
	2,731	**3,141**

For the year ended December 31, 2014, the Company proposed a final dividend of 23.30 HK cents per ordinary share, totaling HK$1,764 million (2013: nil). For the year ended December 31, 2013, the Company declared a second interim dividend of 24.21 HK cents per ordinary share (totaling HK$1,553 million) in lieu of a final dividend.

For the year ended December 31, 2014, HKT Trust proposed a final distribution of 23.30 HK cents per Share Stapled Unit, totaling HK$1,764 million (2013: 24.21 HK cents per Share Stapled Unit, totaling HK$1,553 million) to holders of Share Stapled Units after the end of the reporting period.

The final distribution/dividend proposed after the end of the reporting period, referred to above, have not been recognized as liabilities as at the end of the reporting period.

14 EARNINGS PER SHARE STAPLED UNIT/SHARE OF THE COMPANY

The calculations of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the following data:

	2013 (Adjusted)	**2014**
Earnings (in HK$ million)		
Earnings for the purpose of basic and diluted earnings per Share Stapled Unit/share of the Company	2,460	**2,991**
Number of Share Stapled Units/shares of the Company		
Weighted average number of Share Stapled Units/ordinary shares of the Company	6,682,895,634	**7,094,443,832**
Effect of Share Stapled Units held under the Company's Share Stapled Units Award Schemes	(2,558,277)	**(6,135,686)**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of basic earnings per Shared Stapled Unit/share of the Company	6,680,337,357	**7,088,308,146**
Effect of Share Stapled Units awarded under the Company's Share Stapled Units Award Schemes	1,517,577	**1,164,461**
Weighted average number of Share Stapled Units/ordinary shares of the Company for the purpose of diluted earnings per Shared Stapled Unit/share of the Company	6,681,854,934	**7,089,472,607**

The weighted average number of Share Stapled Units/ordinary shares of the Company for the year ended December 31, 2013 has been adjusted to reflect the effect of the rights issue of Share Stapled Units of the HKT Trust and the Company during the year ended December 31, 2014 (note 28(a)).

15 PROPERTY, PLANT AND EQUIPMENT

In HK$ million	The Groups 2013					
	Buildings	Exchange equipment	Transmission plant	Other plant and equipment	Projects under construction	Total
Cost						
Beginning of year	1,077	18,983	19,407	11,064	1,494	52,025
Additions	–	497	147	209	1,172	2,025
Transfers	–	341	627	245	(1,213)	–
Disposals	(3)	(552)	(35)	(27)	–	(617)
Exchange differences	–	(8)	(75)	(3)	–	(86)
End of year	1,074	19,261	20,071	11,488	1,453	53,347
Accumulated depreciation and impairment						
Beginning of year	551	15,940	12,622	8,685	–	37,798
Charge for the year	20	792	818	446	–	2,076
Disposals	(1)	(552)	(35)	(27)	–	(615)
Exchange differences	–	(2)	(15)	(3)	–	(20)
End of year	570	16,178	13,390	9,101	–	39,239
Net book value						
End of year	504	3,083	6,681	2,387	1,453	14,108
Beginning of year	526	3,043	6,785	2,379	1,494	14,227

15 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

In HK$ million	The Groups					
	2014					
	Buildings	**Exchange equipment**	**Transmission plant**	**Other plant and equipment**	**Projects under construction**	**Total**
Cost						
Beginning of year	**1,074**	**19,261**	**20,071**	**11,488**	**1,453**	**53,347**
Additions	**–**	**557**	**752**	**469**	**751**	**2,529**
Additions upon business combinations *(note 38)*	**392**	**694**	**561**	**225**	**121**	**1,993**
Disposal of interest in a subsidiary *(note 39)*	**–**	**–**	**–**	**(16)**	**–**	**(16)**
Transfers	**–**	**437**	**484**	**184**	**(1,105)**	**–**
Disposals	**–**	**(401)**	**(21)**	**(62)**	**–**	**(484)**
Exchange differences	**–**	**(47)**	**(88)**	**–**	**–**	**(135)**
End of year	**1,466**	**20,501**	**21,759**	**12,288**	**1,220**	**57,234**
Accumulated depreciation and impairment						
Beginning of year	**570**	**16,178**	**13,390**	**9,101**	**–**	**39,239**
Charge for the year	**26**	**1,281**	**1,238**	**526**	**–**	**3,071**
Disposal of interest in a subsidiary *(note 39)*	**–**	**–**	**–**	**(11)**	**–**	**(11)**
Disposals	**–**	**(401)**	**(16)**	**(60)**	**–**	**(477)**
Exchange differences	**–**	**(39)**	**(38)**	**–**	**–**	**(77)**
End of year	**596**	**17,019**	**14,574**	**9,556**	**–**	**41,745**
Net book value						
End of year	**870**	**3,482**	**7,185**	**2,732**	**1,220**	**15,489**
Beginning of year	**504**	**3,083**	**6,681**	**2,387**	**1,453**	**14,108**

The depreciation charge for the year is included in "General and administrative expenses" in the consolidated income statement.

The carrying amount of buildings of the Groups are analysed as follows:

In HK$ million	The Groups	
	2013	**2014**
Held in Hong Kong		
On long-term lease (over 50 years)	36	**33**
On medium-term lease (10–50 years)	468	**837**
	504	**870**

16 INTERESTS IN LEASEHOLD LAND

In HK$ million	The Groups 2013	2014
Cost		
Beginning of year and end of year	536	**536**
Accumulated amortization		
Beginning of year	233	**245**
Charge for the year	12	**13**
End of year	245	**258**
Net book value		
End of year	291	**278**
Beginning of year	303	**291**

The carrying amount of interests in leasehold land of the Groups is analyzed as follows:

In HK$ million	The Groups 2013	2014
Held in Hong Kong		
On long-term lease (over 50 years)	28	**26**
On medium-term lease (10–50 years)	263	**252**
	291	**278**

17 GOODWILL

In HK$ million	The Groups 2013	2014
Cost		
Beginning of year	36,026	**36,044**
Additions upon business combinations	19	**13,627**
Exchange differences	(1)	**(16)**
End of year	36,044	**49,655**

17 GOODWILL *(CONTINUED)*

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the HKT Trust and the Company's CGUs identified according to operating segment as follows:

In HK$ million	The Groups 2013	**2014**
TSS		
– Local telephony and data services	30,830	**30,962**
– Global	1,146	**1,146**
– Others	509	**505**
Mobile	3,356	**16,816**
Other businesses	203	**226**
Total	36,044	**49,655**

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The terminal growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2014 are as follows:

	The Groups 2013			**2014**		
	Gross margin	Terminal growth rate	Discount rate	**Gross margin**	**Terminal growth rate**	**Discount rate**
TSS						
– Local telephony and data services	70%	1%	10%	**75%**	**1%**	**9%**
– Global	19%	3%	10%	**21%**	**3%**	**11%**
Mobile	62%	2%	16%	**52%**	**2%**	**11%**

These assumptions have been used for the analysis of each CGU.

There was no indication of impairment arising from review on goodwill as at October 31, 2014.

Management determined budgeted gross margin based on past performance and its expectations for market development. The weighted average terminal growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

18 INTANGIBLE ASSETS

In HK$ million	The Groups 2013						
	Trademarks	Carrier licences	Customer acquisition costs	Customer base	Software	Others	Total
Cost							
Beginning of year	530	1,501	2,617	5,087	342	–	10,077
Additions	–	99	1,335	–	339	149	1,922
Write-off	–	–	(1,261)	–	–	(136)	(1,397)
Exchange differences	5	–	(1)	5	–	–	9
End of year	535	1,600	2,690	5,092	681	13	10,611
Accumulated amortization							
Beginning of year	96	604	1,371	3,410	23	–	5,504
Charge for the year *(note (a))*	28	234	1,429	728	44	149	2,612
Write-off	–	–	(1,261)	–	–	(136)	(1,397)
End of year	124	838	1,539	4,138	67	13	6,719
Net book value							
End of year	411	762	1,151	954	614	–	3,892
Beginning of year	434	897	1,246	1,677	319	–	4,573

In HK$ million	The Groups **2014**						
	Trademarks	**Carrier licences**	**Customer acquisition costs**	**Customer base**	**Software**	**Others**	**Total**
Cost							
Beginning of year	**535**	**1,600**	**2,690**	**5,092**	**681**	**13**	**10,611**
Additions	**–**	**108**	**2,314**	**–**	**256**	**161**	**2,839**
Additions upon business combination *(note 38)*	**1,343**	**2,332**	**–**	**2,716**	**–**	**–**	**6,391**
Write-off	**–**	**–**	**(1,392)**	**–**	**–**	**(161)**	**(1,553)**
Exchange differences	**(8)**	**–**	**–**	**(7)**	**–**	**–**	**(15)**
End of year	**1,870**	**4,040**	**3,612**	**7,801**	**937**	**13**	**18,273**
Accumulated amortization							
Beginning of year	**124**	**838**	**1,539**	**4,138**	**67**	**13**	**6,719**
Charge for the year *(note (a))*	**75**	**439**	**1,527**	**530**	**70**	**161**	**2,802**
Write-off	**–**	**–**	**(1,392)**	**–**	**–**	**(161)**	**(1,553)**
Exchange differences	**(1)**	**–**	**–**	**(1)**	**–**	**–**	**(2)**
End of year	**198**	**1,277**	**1,674**	**4,667**	**137**	**13**	**7,966**
Net book value							
End of year	**1,672**	**2,763**	**1,938**	**3,134**	**800**	**–**	**10,307**
Beginning of year	**411**	**762**	**1,151**	**954**	**614**	**–**	**3,892**

a. The amortization charge for the year is included in "General and administrative expenses" in the consolidated income statement.

19 INTEREST IN AN ASSOCIATE

In HK$ million	The Groups 2013	2014
Share of net assets of an associate	–	**–**
Loans due from an associate, net	207	**223**
Provision for impairment	–	**(52)**
	207	**171**
Investments at cost, unlisted	41	**41**

As at December 31, 2013, loans due from an associate comprised two unsecured loans totaling HK$74 million which bear interest at 5% per annum and repayable in 1 year, and certain secured loans totaling HK$167 million which bear interest at 6% per annum and repayable in 1 year.

As at December 31, 2014, loans due from an associate comprised two unsecured loans totaling HK$74 million which bear interest at 4% per annum and repayable in 1 year, and certain secured loans totaling HK$218 million which bear interest at 4% per annum and repayable in 1 year.

a. As at December 31, 2014, particulars of the associate of the Groups are as follows:

Company name	Principal place of business/Place of incorporation	Principal activities	Value of registered capital	Interest held by by the Company Directly	Indirectly	Measurement method
東莞捷通達電訊有限公司 (Dongguan Jietongda Telecommunications Company Limited#) ("DJTCL")	The PRC	Provision of support service for mobile service subscription, sales of mobile phones and accessories	RMB40,000,000	–	35%	Equity

Unofficial company name

DJTCL is a strategic intent for the Groups' growth in telecommunications business in the PRC market, providing telecommunications subscription services and sales of mobile phones and accessories.

DJTCL is a private company and there is no quoted market price available for its shares.

19 INTEREST IN AN ASSOCIATE *(CONTINUED)*

b. Commitments and contingent liabilities in respect of the associate

As at December 31, 2014, the Groups' share of its associate's commitments were as follows:

In HK$ million	The Groups 2013	**2014**
Operating lease commitments		
– within 1 year	11	**6**
– after 1 year but within 5 years	10	**7**

The Groups' contingent liabilities relating to its associate is disclosed in note 36. As at December 31, 2014, the Groups had no share of contingent liabilities of its associate.

c. Summarized unaudited financial information of the Groups' associate

Set out below is the summarized unaudited financial information of the associate which is accounted for using the equity method.

In HK$ million	2013	**2014**
Non-current assets	45	**25**
Current assets	153	**97**
Current liabilities	(365)	**(389)**
Non-current liabilities	–	**–**

In HK$ million	2013	**2014**
Turnover	620	**462**
Loss after income tax and total comprehensive loss	(68)	**(100)**

The information above reflects the amounts presented in the financial statement of the associate (not the Groups' share of those amounts) adjusted for differences in accounting policies between the Groups and the associate.

d. Reconciliation of summarized financial information

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Groups' interest in an associate.

In HK$ million	2013	**2014**
Net liabilities		
Beginning of year	(96)	**(167)**
Loss for the year	(68)	**(100)**
Exchange differences	(3)	**–**
End of year	(167)	**(267)**
Interest in an associate	35%	**35%**
Interest in an associate	(58)	**(93)**
Goodwill	24	**24**
Loans due from an associate	241	**292**
Provision for impairment	–	**(52)**
Carrying value	207	**171**

During the year ended December 31, 2014, the Groups did not have any unrecognized share of losses of an associate (2013: nil). As at December 31, 2014, the accumulated share of loss of the associate unrecognized by the Groups were nil (2013: nil).

20 INTERESTS IN JOINT VENTURES

In HK$ million	The Groups 2013	2014
Share of net assets of joint ventures	121	**72**
Loan due from a joint venture	524	**478**
	645	**550**

The loan due from a joint venture bears interests at HIBOR plus 3% per annum for the year (2013: HIBOR plus 3% per annum). The loan is unsecured and has no fixed terms of repayment.

a. As at December 31, 2014, particulars of the principal joint venture of the Groups are as follows:

Company name	Principal place of business/ Place of incorporation	Principal activities	Value of issued capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Measurement Method
Genius Brand Limited ("GBL")	Hong Kong	Provision of mobile telecommunications services in Hong Kong	HK$10,000	–	50%	Equity

GBL is a strategic partnership for the Groups, providing access to advance connectivity services in Hong Kong for the development of mobile business.

The principal joint venture is a private company and there are no quoted market prices available for its shares.

b. Commitments and contingent liabilities in respect of joint ventures

As at December 31, 2014, the Groups' share of its joint ventures were as follows.

In HK$ million	The Groups 2013	2014
Commitment to provide funding	132	**112**
Operating lease commitments		
– within 1 year	4	**3**
– after 1 year but within 5 years	6	**5**

There were no contingent liabilities relating to the Group's interests in the joint ventures. As at December 31, 2014, the Groups' share of contingent liabilities relating to its joint ventures comprised bank guarantees of HK$39 million (2013: HK$39 million) and a corporate guarantee of HK$158 million (2013: HK$249 million).

20 INTERESTS IN JOINT VENTURES *(CONTINUED)*

c. Summarized unaudited financial information of the Groups' principal joint venture

Set out below is the summarized unaudited financial information of GBL, the principal joint venture of the Groups and being accounted for using the equity method:

In HK$ million	2013	**2014**
Non-current assets	1,119	**1,063**
Current assets		
Cash and cash equivalents	20	**43**
Other current assets (excluding cash and cash equivalents)	19	**20**
Total current assets	39	**63**
Current liabilities		
Financial liabilities (excluding trade payables, accruals and other payables)	(240)	**(261)**
Other current liabilities (including trade payables, accrual and other payables)	(30)	**(54)**
Total current liabilities	(270)	**(315)**
Non-current liabilities		
Financial liabilities (excluding trade payables)	(897)	**(842)**
Total non-current liabilities	(897)	**(842)**
Net liabilities	(9)	**(31)**
Equity attributable to equity holders	(9)	**(31)**

In HK$ million	2013	**2014**
Turnover	194	**227**
Depreciation and amortization	(79)	**(91)**
Interest expense	(31)	**(38)**
Profit before income tax	1	**1**
Income tax	–	**(23)**
Income/(loss) after income tax and total comprehensive income/(loss)	1	**(22)**

For the year ended December 31, 2014, the aggregate amount of profit/(loss) after income tax, and total comprehensive income in the individually immaterial joint ventures that are accounted for using the equity method was HK$134 million (2013: HK$22 million), and HK$115 million (2013: HK$17 million), respectively.

The information above reflects the amounts presented in the financial statements of the joint ventures (not the Groups' share of those amounts) adjusted for differences in accounting policies between the Groups and the joint ventures.

20 INTERESTS IN JOINT VENTURES *(CONTINUED)*

d. Reconciliation of summarized unaudited financial information of a principal joint venture

Reconciliation of the summarized unaudited financial information presented to the carrying amount of the Groups' interests in GBL, the principal joint venture.

In HK$ million	2013	**2014**
Net liabilities		
Beginning of year	(10)	**(9)**
Profit/(loss) for the year	1	**(22)**
End of year	(9)	**(31)**
Interests in joint ventures	50%	**50%**
Interests in joint ventures	(5)	**(16)**
Loan due from a joint venture	524	**478**
Carrying value	519	**462**

As at December 31, 2014, the aggregate carrying amount of interest in individually immaterial joint ventures that are accounted for using the equity method was HK$88 million (2013: HK$126 million).

During the year ended December 31, 2014, the Groups did not have any unrecognized share of losses of joint ventures (2013: nil). As at December 31, 2014, there was no accumulated share of losses of the joint ventures unrecognized by the Groups (2013: nil).

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

In HK$ million	The Groups	
	2013	**2014**
Beginning of year	85	**171**
Net gain/(loss) transfer to equity *(note 29)*	86	**(110)**
End of year	171	**61**
Market value of listed equity securities – overseas	171	**61**

As at December 31, 2014, the Groups' equity securities were reviewed for impairment by management. Consequently, there was no provision for impairment (2013: nil) recognized in the consolidated income statement for the year ended December 31, 2014. The Groups do not hold any collateral over these securities.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In HK$ million	The Groups 2013	**2014**
Market value of listed securities	19	**39**
Less: Securities held for employee share award to be vested within one year classified as current assets	(11)	**(18)**
Non-current portion	8	**21**

Financial assets at fair value through profit or loss represent shares of PCCW, acquired under the PCCW Purchase Scheme. Please refer to note 27(b)(iv) for details of the share award schemes of PCCW.

23 INTERESTS IN SUBSIDIARIES

In HK$ million	The Company 2013	**2014**
Unlisted shares, at cost	20,004	**27,905**

a. As at December 31, 2014, particulars of the principal subsidiaries of the Company are as follows:

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
Gateway Global Communications Limited	United Kingdom	GBP1	–	100%	Provision of network-based telecommunications services to customers, and the provision of sales and marketing services to related companies
Hong Kong Telecommunications (HKT) Limited (“HKTL”)	Hong Kong	HK$2,488,200,001	–	100%	Provision of telecommunications services
HKT Group Holdings Limited (“HKTGH”)	Cayman Islands	US$636,000,005	100%	–	Investment holding
HKT Services Limited	Hong Kong	HK$1	–	100%	Provision of management services to group companies

23 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2014, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
PCCW Global B.V.	Netherlands/ France	EUR18,000	–	100%	Sales, distribution and marketing of integrated global communications solutions and products of PCCW Global Limited and PCCW Global (HK) Limited
PCCW Global, Inc.	U.S. (Delaware)	US$18.01	–	100%	Supply of broadband internet access solutions and web services
PCCW Global Limited	Hong Kong/ Dubai Technology and Media Free Zone	HK$167,743,479	–	100%	Provision of network-based telecommunications services
PCCW Global (HK) Limited	Hong Kong	HK$10	–	100%	Provision of satellite-based and network-based telecommunications services
HKT Global (Singapore) Pte. Ltd.	Singapore	S$60,956,485.64	–	100%	Provision of telecommunications solutions related services
PCCW (Macau), Limitada	Macau	MOP2,000,000	–	75%[2]	Selling customer premises equipment and related solutions, conducting systems integration projects and providing outsourced call center services
CSL Mobile Limited (formerly PCCW Mobile HK Limited)	Hong Kong	HK$7,900,280,100 ordinary shares HK$1,254,000,000 non-voting deferred shares	–	100%	Provision of mobile services to its customers, which is procured from HKTL, and the sale of mobile phones and accessories

23 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

a. As at December 31, 2014, particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Country/ place of incorporation/ establishment and operation	Value of issued and fully paid share capital/ paid-in capital/ registered capital	Interest held by the Company Directly	Interest held by the Company Indirectly	Principal activities
廣州電盈綜合客戶服務技術發展有限公司[1] (PCCW Customer Management Technology and Services (Guangzhou) Limited[3])	The PRC	HK$93,240,000	–	100%	Customer service and consultancy
PCCW Teleservices Operations (Hong Kong) Limited	Hong Kong	HK$2	–	100%	Provision of customer relationship management and customer contact management solutions and services
PCCW Teleservices (Hong Kong) Limited	Hong Kong	HK$350,000,002	–	100%	Provision of customer relationship management and customer contact management solutions and services
PCCW Teleservices (US), Inc.	Nebraska, U.S.	US$1,169	–	100%	Telemarketing and direct marketing services

Certain subsidiaries which do not materially affect the results or financial position of the Groups are not included in the above.

Notes:
1. Represents a wholly foreign owned enterprise.
2. The equity interest held by non-controlling interests is 25% as at December 31, 2014.
3. Unofficial company name.

b. Balances with subsidiaries

During the year, the Company entered into transactions with certain subsidiaries in the ordinary course of business. Details of the balances with subsidiaries are as follows:

In HK$ million	The Company 2013	The Company **2014**
Amount due from a subsidiary	7,490	**7,437**
Amounts due to subsidiaries	(93)	**(224)**

Balances with subsidiaries are unsecured, non-interest-bearing, and have no fixed terms of repayment except for a loan due from a subsidiary of HK$7,437 million (2013: HK$7,437 million) which bears interest at HIBOR plus 0.3% per annum and repayable within one year.

23 INTERESTS IN SUBSIDIARIES *(CONTINUED)*

c. Non-controlling interests of the Groups' subsidiaries

The total non-controlling interests as at December 31, 2014 were HK$107 million (2013: HK$182 million), of which HK$53 million (2013: HK$160 million), HK$24 million (2013: HK$22 million), and HK$30 million (2013: nil) were attributable to Unihub China Information Technology Company Limited, PCCW (Macau), Limitada and Sun Mobile Limited respectively. The non-controlling interests in respect of the Groups are not material.

24 CURRENT ASSETS AND LIABILITIES

a. Inventories

In HK$ million	The Groups 2013	The Groups 2014
Work-in-progress	518	**252**
Finished goods	431	**301**
Consumable inventories	69	**68**
	1,018	**621**

b. Trade receivables, net

In HK$ million	The Groups 2013	The Groups 2014
Trade receivables *(note (i))*	3,123	**4,026**
Less: Impairment loss for doubtful debts *(note (ii))*	(123)	**(151)**
Trade receivables, net	3,000	**3,875**

i. Aging of trade receivables

	The Groups 2013	The Groups 2014
0–30 days	1,563	**2,161**
31–60 days	478	**542**
61–90 days	192	**258**
91–120 days	87	**146**
Over 120 days	803	**919**
	3,123	**4,026**

24 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

b. Trade receivables, net *(continued)*

ii. Impairment loss for doubtful debts

The movements in the provision for doubtful debts during the year, including both specific and collective loss components, are as follows:

In HK$ million	The Groups 2013	2014
Beginning of year	125	**123**
Impairment loss recognized *(note 9(b))*	129	**164**
Uncollectible amounts written off	(131)	**(136)**
End of year	123	**151**

As at December 31, 2014, trade receivables of HK$151 million (2013: HK$123 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific provision for doubtful debts of HK$97 million (2013: HK$85 million) was recognized. The Groups do not hold any collateral over these balances.

iii. Trade receivables that are not impaired

The aging of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

In HK$ million	The Groups 2013	2014
Neither past due nor impaired	1,112	**1,754**
0–30 days past due	788	**818**
31–60 days past due	234	**304**
61–90 days past due	122	**154**
Over 90 days past due	744	**845**
Past due but not considered impaired	1,888	**2,121**
	3,000	**3,875**

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not considered impaired relate to customers that have a good track record with the Groups or a sound credit quality. Based on past experience and regular credit risk assessment performed on all significant outstanding trade receivables, management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in trade receivables, net was an amount due from related parties of HK$25 million (2013: HK$47 million).

24 CURRENT ASSETS AND LIABILITIES *(CONTINUED)*

c. Short-term borrowings

In HK$ million	Note	The Groups 2013	2014
US$500 million 5.25% guaranteed notes due 2015	(i)	–	**3,877**
Secured		–	**–**
Unsecured		–	**3,877**

(i) US$500 million 5.25% guaranteed notes due 2015 (the "Notes due 2015")

In July 2005, PCCW-HKT Capital No.3 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 5.25% guaranteed notes due 2015, which are listed on the Singapore Exchange Securities Trading Limited. The Notes due 2015 are irrevocably and unconditionally guaranteed by PCCW-HKT Telephone Limited ("HKTC"), HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTC, HKTGH and HKTL.

d. Trade payables

The aging of trade payables is set out below:

In HK$ million	The Groups 2013	2014
0–30 days	895	**974**
31–60 days	114	**128**
61–90 days	98	**39**
91–120 days	19	**37**
Over 120 days	677	**801**
	1,803	**1,979**

Included in trade payables of the Groups was an amount due to related parties of HK$22 million (2013: HK$36 million).

25 LONG-TERM BORROWINGS

In HK$ million	The Groups 2013	**2014**
Repayable within a period		
– over one year, but not exceeding two years	3,868	**11,798**
– over two years, but not exceeding five years	16,774	**17,057**
– over five years	3,380	**3,694**
	24,022	**32,549**
Representing:		
US$500 million 5.25% guaranteed notes due 2015 *(note (a))*	3,868	**–**
US$500 million 4.25% guaranteed notes due 2016 *(note (b))*	3,961	**3,924**
US$500 million 3.75% guaranteed notes due 2023 *(note (c))*	3,380	**3,694**
Bank borrowings	12,813	**24,931**
	24,022	**32,549**
Secured	–	**–**
Unsecured	24,022	**32,549**

a. US$500 million 5.25% guaranteed notes due 2015

The Notes due 2015 were classified as short-term borrowings as at December 31, 2014. Please refer to note 24(c)(i) for more details.

b. US$500 million 4.25% guaranteed notes due 2016 (the "Notes due 2016")

In August 2010, PCCW-HKT Capital No.4 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 4.25% guaranteed notes due 2016 which are listed on the Singapore Exchange Securities Trading Limited. The Notes due 2016 are irrevocably and unconditionally guaranteed by HKTL and HKTGH and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and HKTGH.

c. US$500 million 3.75% guaranteed notes due 2023 (the "Notes due 2023")

In March 2013, PCCW-HKT Capital No.5 Limited, an indirect wholly-owned subsidiary of HKTGH, issued US$500 million 3.75% guaranteed notes due 2023, which are listed on the Singapore Exchange Securities Trading Limited. The Notes due 2023 are irrevocably and unconditionally guaranteed by HKTL and HKTGH and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTL and HKTGH.

Please refer to note 37 for details of the Groups' bank loan facilities.

26 DERIVATIVE FINANCIAL INSTRUMENTS

In HK$ million	The Groups 2013	2014
Non-current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note (a))*	67	**–**
Current assets		
Fixed-to-fixed cross currency swap contracts – cash flow hedges *(note (a))*	–	**49**
Non-current liabilities		
Fixed-to-floating cross currency swap contracts – fair value hedges *(note (b))*	405	**100**

As at December 31, 2014, the Groups had outstanding cross currency swap contracts with notional contract amounts of US$1,000 million (approximately HK$7,759 million) (2013: US$1,000 million (approximately HK$7,755 million)), at various rates, to manage the Groups' exposure to foreign currency fluctuations and interest rate risk.

The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

a. The fixed-to-fixed cross currency swap contract outstanding as at December 31, 2014 with notional contract amounts of US$500 million (approximately HK$3,879 million) (2013: US$500 million (approximately HK$3,877 million)) was designated as cash flow hedge of the foreign exchange rate risk in the Groups' foreign currency denominated borrowings. Maturity of this swap matches with the maturity of the underlying borrowings and has fixed the USD/HKD exchange rate at 7.7790 as at December 31, 2014 (2013: 7.7790) for the notional amounts (see note 34(c)(i)). Gains and losses recognized in the hedging reserve under equity on such cross currency swap contract will be continuously released to the consolidated income statement until the repayment of the borrowings.

b. The Groups entered into fixed-to-floating cross currency swap contracts outstanding as at December 31, 2014 with notional contract amounts of US$500 million (approximately HK$3,879 million) (2013: US$500 million (approximately HK$3,877 million)). Maturity of these swaps matches with the maturity of the underlying fixed rate borrowings and fixed the USD/HKD exchange rate at 7.7570 as at December 31, 2014 (2013: 7.757) for the notional amounts (see note 34(c)(i)). The swaps also pre-determined the interest rates at HIBOR plus 2.115% (2013: HIBOR plus 2.115%) (see note 34(c)(ii)).

These swap contracts were designated as either (i) cash flow hedges of the foreign exchange rate risk in the Groups' foreign currency denominated borrowings or (ii) fair value hedges of the interest rate risk in the Groups' borrowings at fixed interest rates.

Gains and losses recognized in the hedging reserve under equity on those swap contracts designated as cash flow hedges will be continuously released to the consolidated income statement until the repayment of the borrowings.

Those swap contracts designated as fair value hedges offset the impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The swap contracts were reflected at fair value in the consolidated statement of financial position and the related portion of fixed-rate debt being hedged was reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of the swap contracts and the corresponding changes in the adjusted carrying amount of the related portion of the fixed-rate debt being hedged, are recognized as adjustments in "Finance costs, net" in the consolidated income statement. The net effect recognized in the "Finance costs, net" represents the ineffective portion of the hedging relationship, amounted to a loss of approximately HK$4 million (2013: a gain of HK$5 million) for the year ended December 31, 2014 (see note 10).

27 EMPLOYEE BENEFITS

a. Employee retirement benefits – Defined contribution retirement schemes

The Groups operate defined contribution schemes, including the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The schemes are administered by independent trustees.

Under the defined contribution scheme, the employer is required to make contributions to the scheme at rates specified under the rules of the scheme. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Groups.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 which was revised upward from $25,000 with effect from June 1, 2014. Contributions to the scheme vest immediately upon the completion of the service in the relevant service period.

b. Equity compensation benefits

i. Share Option Schemes of PCCW

PCCW had a share option scheme which was adopted on September 20, 1994 (the "1994 Scheme"). At the annual general meeting of PCCW held on May 19, 2004, the shareholders of PCCW approved the termination of the 1994 Scheme and the adoption of a new share option scheme (the "2004 Scheme"). The 2004 Scheme was subsequently terminated on May 8, 2014 following the approval by the shareholders of PCCW at the annual general meeting of PCCW held on the same day to adopt another new share option scheme (the "2014 Scheme"). After the termination of both the 1994 Scheme and the 2004 Scheme, no further share options will be granted under such schemes, but in all other respects the provisions of such schemes will remain in full force and effect. There is no material difference between the terms of the 2004 Scheme and the 2014 Scheme.

PCCW currently operates the 2014 Scheme, under which its Board may, at its discretion, grant share options to any eligible participant to subscribe for shares of PCCW subject to the terms and conditions stipulated therein.

(1) Purpose
The purpose of the 2014 Scheme is to provide eligible participants with the opportunity to acquire proprietary interests in PCCW and to encourage eligible participants to work towards enhancing the value of PCCW and its shares for the benefit of PCCW and its shareholders as a whole.

(2) Eligible participants
Eligible participants include any director, executive director, non-executive director, independent non-executive director, officer and/or employee of the PCCW Group or any member of it, whether in full time or part time employment of the PCCW Group or any member of it, and any consultant, adviser, supplier, customer, or sub-contractor of the PCCW Group or any member of it and any other person whomsoever is determined by the PCCW Board as having contributed to the development, growth or benefit of the PCCW Group or any member of it or as having spent any material time in or about the promotion of the PCCW Group or its business; and provided always, that an eligible participant can be an individual or any other person permitted under the 2014 Scheme.

(3) Total number of shares available for issue
The maximum number of shares in respect of which options may be granted under the 2014 Scheme shall not in aggregate exceed 10% of the shares of PCCW in issue as at the date of adoption of the 2014 Scheme.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and other share option schemes of PCCW must not exceed 30% of the shares of PCCW in issue from time to time.

(4) The maximum entitlement of each eligible participants
The maximum entitlement of any eligible participant (other than a substantial shareholder or an independent non-executive director of PCCW, or any of their respective associates) under the 2014 Scheme is the total number of shares issued and to be issued on exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant up to a maximum of 1% of the shares of PCCW in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

i. Share Option Schemes of PCCW *(continued)*

(5) Option period

The period within which an option may be exercised under the 2014 Scheme will be determined by the PCCW Board at its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the option.

(6) Minimum period for which an option must be held before it is vested

The period within which an option may be exercised under the 2014 Scheme will be determined by the PCCW Board at its absolute discretion, provided that such terms and conditions shall not be inconsistent with the 2014 Scheme.

(7) Payment on acceptance of the option

The 2014 Scheme does not specify any consideration which is payable on the acceptance of an option and the PCCW Board may at its absolute discretion, determine any other terms and conditions in relation to the option which shall not be inconsistent with the 2014 Scheme. An option shall be deemed to have been granted and accepted by the grantee and to have taken effect upon the date of grant of such option unless the grantee rejects the grant in writing within 14 days after the date of grant. Any option so rejected shall be deemed null and void and never to have been granted.

(8) Basis of determining the subscription price

Under the 2014 Scheme, the exercise price in relation to each option shall be determined by the PCCW Board at its absolute discretion, but in any event shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of such option; and (ii) the average closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the five trading days last preceding the date of grant of such option on which days it has been possible to trade shares on the Stock Exchange.

(9) The remaining life of the 2014 Scheme

Subject to the early termination by an ordinary resolution in general meeting of shareholders or resolutions of the PCCW Board, the 2014 Scheme shall be valid and effective for a period of ten (10) years commencing from its date of adoption, after which period no further options will be offered or granted but the provisions of the 2014 Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the 2014 Scheme.

As at January 1, 2014 and December 31, 2014, there were no outstanding share options under the 1994 Scheme, the 2004 Scheme and the 2014 Scheme. There were also no share options granted to or exercised by any director or chief executive of PCCW or employee of the PCCW Group or any other eligible participant, nor any share options cancelled or lapsed under the 1994 Scheme, the 2004 Scheme and the 2014 Scheme during the year ended December 31, 2014.

(10) Movements in the number of share options outstanding and their related weighted average exercise prices

In HK$	The Groups			
	2013		**2014**	
	Weighted average exercise price	Number of options	**Weighted average exercise price**	**Number of options**
Beginning of year	4.35	13,341,335	**–**	**–**
Cancelled/lapsed *(note (11))*	4.35	(13,341,335)	**–**	**–**
End of year	N/A	–	**N/A**	**–**
Exercisable at end of year		–		**–**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

i. Share Option Schemes of PCCW *(continued)*

(11) Details of share options cancelled or lapsed during the year:

Exercise period	Exercise price HK$	The Groups Number of options 2013	**2014**
July 25, 2004 to July 23, 2013	4.35	13,341,335	–
		13,341,335	–

ii. 2011-2021 Share Stapled Units Option Scheme

On November 7, 2011 (the "Adoption Date"), the HKT Trust and the Company conditionally adopted a Share Stapled Units option scheme (the "2011-2021 Option Scheme") which became effective upon listing of the Share Stapled Units, to enable the HKT Trust and the Company, acting jointly by mutual agreement between them, to grant options to (a) any full-time or part-time employees of the Company and/or any of its subsidiaries; (b) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries; and (c) any consultant or adviser (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid), distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries (the "Eligible Participants") as incentives or rewards for their contribution to the growth of the Groups and to provide the Groups with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants.

No Share Stapled Unit options have been granted under the 2011-2021 Option Scheme since the Adoption Date. Accordingly, there were no outstanding options under the 2011-2021 Option Scheme as at December 31, 2013 and 2014 and no options were granted to or exercised by any directors or chief executives of the Company and the Trustee-Manager or employees of the Groups or other participants nor cancelled or lapsed during the years ended December 31, 2013 and 2014.

iii. Share Stapled Units Award Schemes of the Company

On October 11, 2011, the Company conditionally adopted two award schemes pursuant to which awards of Share Stapled Units may be made, namely the HKT Share Stapled Units Purchase Scheme and the HKT Share Stapled Units Subscription Scheme (collectively the "Share Stapled Units Award Schemes").

The Share Stapled Units Award Schemes are on similar terms and were conditionally adopted by the Company which became effective upon listing of the Share Stapled Units as a potential means to incentivize and reward the eligible participants as follows:

In the case of the HKT Share Stapled Units Purchase Scheme:

(1) any full-time or part-time employees of the Company and/or any of its subsidiaries; and

(2) any director (including executive, non-executive and independent non-executive director) of the Company and/or any of its subsidiaries.

In the case of the HKT Share Stapled Units Subscription Scheme:

The same group of potential eligible participants as referred to above except for any directors of the Company or its subsidiaries and/or any other connected persons of the Company.

The eligible participants are awarded Share Stapled Units purchased in the market under the HKT Share Stapled Units Purchase Scheme and newly issued Share Stapled Units under the HKT Share Stapled Units Subscription Scheme respectively.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

The Share Stapled Units Award Schemes are administered by the board of directors of the Company (the "Company Board") and an independent trustee (the "Trustee"), as trustee appointed to hold the relevant Share Stapled Units until such time as the Share Stapled Units vest in the selected participants. Under both schemes, following the making of an award to an eligible participant, the relevant Share Stapled Units are held by the Trustee for that eligible participant and then shall vest over a period of time provided that the eligible participant who is an employee of HKT or any of its subsidiaries remains an employee of the Groups at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant committee of the Company Board shall be at liberty to waive such condition.

Awards may be made by the Company Board or any committee, sub-committee or person duly delegated, such as the remuneration committee and, in the case of Share Stapled Units that are not vested or transferred as originally intended the Trustee may hold such units and income deriving therefrom for the purpose of any eligible participants, having taken into consideration the recommendations of the Company Board.

No awards have been made or agreed to be made, under the HKT Share Stapled Units Subscription Scheme for the years ended December 31, 2013 and 2014.

A summary of movements in the Share Stapled Units held under the HKT Share Stapled Units Purchase Scheme during the year is as follows:

	The Groups	
	Number of Share Stapled Units	
	2013	**2014**
Beginning of year	1,158,000	**7,360,797**
Purchase from the market by the Trustee at the weighted average market price of HK$9.05 (2013: HK$7.71) per Share Stapled Unit	6,737,000	**190,000**
Purchase under the rights issue of the Company by the trustee at subscription price of HK$6.84 (2013: nil) per Share Stapled Unit	–	**1,007,112**
Share Stapled Units vested	(534,203)	**(2,579,800)**
End of year	7,360,797	**5,978,109**

Details of Share Stapled Units awarded pursuant to the HKT Share Stapled Units Purchase Scheme during the year and the unvested Share Stapled Units are as follows:

(1) Movements in the number of unvested Share Stapled Units and their related weighted average fair value at their measurement dates

	The Groups			
	2013		**2014**	
	Weighted average fair value at date of award HK$	Number of Share Stapled Units	**Weighted average fair value at date of award HK$**	**Number of Share Stapled Units**
Beginning of year	5.98	1,140,265	**7.27**	**2,955,982**
Awarded *(note (3))*	7.59	2,387,498	**9.03**	**12,962,935**
Forfeited *(note (4))*	6.84	(37,578)	**8.99**	**(344,000)**
Vested *(note (5))*	5.98	(534,203)	**7.71**	**(2,579,800)**
End of year *(note (2))*	7.27	2,955,982	**8.89**	**12,995,117**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

(2) Terms of unvested Share Stapled Units as at the end of the reporting period

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of Share Stapled Units 2013	**2014**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	588,460	**–**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	1,183,919	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	1,183,603	**1,169,756**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**732,874**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	**732,583**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	–	**3,996,269**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	**3,182,201**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**3,181,434**
			2,955,982	**12,995,117**

The unvested Share Stapled Units at December 31, 2014 had a weighted average remaining vesting period of 1.04 years (2013: 0.63 years).

(3) Details of Share Stapled Units awarded during the year

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of Share Stapled Units 2013	**2014**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	1,193,910	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	1,193,588	**–**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**741,687**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	**741,389**
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	–	**814,068**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	–	**4,098,245**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	**3,284,177**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**3,283,369**
			2,387,498	**12,962,935**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iii. Share Stapled Units Award Schemes of the Company *(continued)*

(4) Details of Share Stapled Units forfeited during the year

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of Share Stapled Units 2013	**2014**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	545	**–**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	17,057	**–**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	9,991	**6,647**
March 21, 2013	March 21, 2013 to March 21, 2015	7.59	9,985	**13,847**
April 11, 2014	April 11, 2014 to April 11, 2015	8.26	–	**8,813**
April 11, 2014	April 11, 2014 to April 11, 2016	8.26	–	**8,806**
July 1, 2014	July 1, 2014 to April 1, 2015	9.13	–	**101,976**
July 1, 2014	July 1, 2014 to April 1, 2016	9.13	–	**101,976**
July 1, 2014	July 1, 2014 to April 1, 2017	9.13	–	**101,935**
			37,578	**344,000**

(5) Details of Share Stapled Units vested during the year

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of Share Stapled Units 2013	**2014**
April 11, 2012	April 11, 2012 to April 11, 2013	5.98	534,203	**–**
April 11, 2012	April 11, 2012 to April 11, 2014	5.98	–	**588,460**
March 21, 2013	March 21, 2013 to March 21, 2014	7.59	–	**1,177,272**
July 1, 2014	July 1, 2014 to July 1, 2014	9.13	–	**814,068**
			534,203	**2,579,800**

The fair value of the Share Stapled Units awarded during the year at the measurement dates is measured by the quoted market price of the Share Stapled Units at the respective award dates.

During the year, share-based compensation expenses of HK$59 million (2013: HK$13 million) is recognized for the Share Stapled Units Award Schemes in the consolidated income statement and employee share-based compensation reserve of HK$59 million (2013: HK$13 million) is recognized.

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW

In 2002, PCCW established two employee share incentive award schemes under which awards of shares may be granted to employees of participating subsidiaries. The directors of PCCW were not eligible to participate in either scheme. On June 10, 2002, PCCW approved the establishment of the PCCW Purchase Scheme under which selected employees are awarded shares purchased in the market. On November 12, 2002, PCCW approved the establishment of the PCCW Subscription Scheme under which selected employees are awarded newly issued shares. The purpose of both the PCCW Purchase Scheme and the PCCW Subscription Scheme is to recognize the contributions of certain employees of PCCW and its subsidiaries ("PCCW Group"), to retain them for the continued operation and development of the PCCW Group. Under both schemes, following the making of an award to an employee, the relevant shares are held on trust for that employee and then vest over a period of time provided that the employee remains an employee of the PCCW Group at the relevant time and satisfies any other conditions specified at the time the award is made, notwithstanding that the relevant Committee of the board of directors of PCCW shall be at liberty to waive such condition. In May 2006, the PCCW Purchase Scheme was altered such that the directors of PCCW are also eligible to participate in this scheme. The maximum aggregate number of shares that can be awarded under the two schemes is limited to 1% of the shares of PCCW in issue (excluding shares that have already been transferred to employees on vesting).

The PCCW Purchase Scheme and the PCCW Subscription Scheme expired on November 15, 2012 however the shares which were previously awarded prior to the expiry date were not affected. New scheme rules in respect of the PCCW Purchase Scheme and the PCCW Subscription Scheme were adopted on November 15, 2012 so as to allow both schemes to continue to operate for a further 10 years and to accommodate the granting of the Share Stapled Units in the future in addition or as an alternative to the shares of PCCW.

A summary of movements in PCCW shares held by the Groups under the PCCW Purchase Scheme in respect of eligible employees of the Company and/or its subsidiaries during the year is as follows:

	Number of PCCW shares	
	2013	**2014**
Beginning of year	2,236,000	**5,487,130**
Purchase from the market by the Trustee at the weighted average market price of nil (2013: HK$3.85) per PCCW share	4,277,000	**–**
PCCW shares obtained under the PCCW Subscription Scheme	–	**5,000,000**
PCCW shares vested	(1,025,870)	**(3,092,530)**
Transfer to grantees in lieu of cash dividends	–	**(935)**
End of year	5,487,130	**7,393,665**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

Details of PCCW shares awarded pursuant to the PCCW share award schemes during the year and the PCCW shares unvested, are as follows:

(1) Movements in the number of unvested PCCW shares and their related weighted average fair value on the date of award

	The Groups			
	2013		**2014**	
	Weighted average fair value at date of award HK$	Number of PCCW shares	**Weighted average fair value at date of award HK$**	**Number of PCCW shares**
The PCCW Purchase Scheme:				
Beginning of year	2.80	2,204,935	**3.43**	**5,062,070**
Awarded *(note (3))*	3.62	3,939,584	**3.99**	**715,566**
Forfeited *(note (4))*	3.11	(56,579)	**3.62**	**(25,974)**
Vested *(note (5))*	2.80	(1,025,870)	**3.32**	**(3,092,530)**
End of year *(note (2))*	3.43	5,062,070	**3.72**	**2,659,132**
The PCCW Subscription Scheme:				
Beginning of year	–	–	**–**	**–**
Awarded *(note (3))*	–	–	**3.99**	**2,582,240**
Forfeited *(note (4))*	–	–	**3.99**	**(66,987)**
End of year *(note (2))*	–	–	**3.99**	**2,515,253**
Total		5,062,070		**5,174,385**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

(2) Terms of unvested PCCW shares as at the end of the reporting period

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of PCCW shares 2013	**2014**
The PCCW Purchase Scheme:				
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	1,143,842	**–**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	1,959,172	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	1,959,056	**1,943,566**
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**357,786**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**357,780**
			5,062,070	**2,659,132**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**1,257,872**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**1,257,381**
			–	**2,515,253**
Total			5,062,070	**5,174,385**

The PCCW shares unvested at December 31, 2014 had a weighted average remaining vesting period of 0.57 years (2013: 0.62 years).

(3) Details of PCCW shares awarded during the year

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of PCCW shares 2013	**2014**
The PCCW Purchase Scheme:				
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	1,969,851	**–**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	1,969,733	**–**
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**357,786**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**357,780**
			3,939,584	**715,566**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**1,291,377**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**1,290,863**
			–	**2,582,240**
Total			3,939,584	**3,297,806**

27 EMPLOYEE BENEFITS *(CONTINUED)*

b. Equity compensation benefits *(continued)*

iv. Share award schemes of PCCW *(continued)*

(4) Details of PCCW shares forfeited during the year

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of PCCW shares 2013	**2014**
The PCCW Purchase Scheme:				
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	500	**–**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	34,723	**–**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	10,679	**10,484**
March 21, 2013	March 21, 2013 to March 21, 2015	3.62	10,677	**15,490**
			56,579	**25,974**
The PCCW Subscription Scheme:				
April 11, 2014	April 11, 2014 to April 11, 2015	3.99	–	**33,505**
April 11, 2014	April 11, 2014 to April 11, 2016	3.99	–	**33,482**
			–	**66,987**
Total			56,579	**92,961**

(5) Details of PCCW shares vested during the year

Date of award	Vesting period	Fair value at date of award HK$	The Groups Number of PCCW shares 2013	**2014**
The PCCW Purchase Scheme:				
April 11, 2012	April 11, 2012 to April 11, 2013	2.80	1,025,870	**–**
April 11, 2012	April 11, 2012 to April 11, 2014	2.80	–	**1,143,842**
March 21, 2013	March 21, 2013 to March 21, 2014	3.62	–	**1,948,688**
			1,025,870	**3,092,530**

The fair value of the PCCW shares awarded during the year at the measurement dates is measured by the quoted market price of the PCCW shares at the respective award dates.

During the year, share-based compensation expenses of HK$19 million (2013: HK$11 million) is recognized in the consolidated income statement and HK$19 million (2013: HK$11 million) is recognized as an obligation in liabilities.

27 EMPLOYEE BENEFITS *(CONTINUED)*

c. Defined benefit retirement scheme

The defined benefit retirement schemes of CSL Holdings Limited ("DB Schemes") were terminated subsequent to the completion of the acquisition. The termination of DB Schemes resulted in a reversal of retirement benefits expense of HK$106 million recognized in the consolidated income statement during the year ended December 31, 2014.

28 EQUITY OF HKT LIMITED

	2013		**2014**	
	Number of shares	Nominal value HK$	**Number of shares**	**Nominal value HK$**
Authorized:				
Ordinary shares				
Beginning and end of year	20,000,000,000	10,000,000	**20,000,000,000**	**10,000,000**
Preference shares				
Beginning and end of year	20,000,000,000	10,000,000	**20,000,000,000**	**10,000,000**
Issued and fully paid:				
Ordinary shares of HK$0.0005 each				
At January 1, 2014	6,416,730,792	3,208,365	**6,416,730,792**	**3,208,365**
Issued and allocated pursuant to the Rights issue of Share Stapled Units	–	–	**1,155,011,542**	**577,506**
At December 31, 2014	6,416,730,792	3,208,365	**7,571,742,334**	**3,785,871**
Preference shares of HK$0.0005 each				
At January 1, 2014	6,416,730,792	3,208,365	**6,416,730,792**	**3,208,365**
Issued and allocated pursuant to the Rights issue of Share Stapled Units	–	–	**1,155,011,542**	**577,506**
At December 31, 2014	6,416,730,792	3,208,365	**7,571,742,334**	**3,785,871**

a. During the year ended December 31, 2014, the Company issued 1,155,011,542 new share stapled units (the "Right Share Stapled Units") and allocated under the rights issue at the subscription price of HK$6.84 per Rights Share Stapled Units on the basis of 18 Rights Share Stapled Units for every 100 existing Share Stapled Units held on June 27, 2014 ("Rights Issue"). The net proceed after issuance expenses from the Rights Issue was approximately HK$7.8 billion.

28 EQUITY OF HKT LIMITED *(CONTINUED)*

Movements in reserves of the Company during the years ended December 31, 2013 and 2014 are as follows:

In HK$ million		The Company	
		2013	
	Share premium	Retained profits	Total
At January 1, 2013	27,344	36	27,380
Dividend paid in respect of the previous year	–	(1,385)	(1,385)
Interim dividend paid in respect of current year	–	(1,348)	(1,348)
Total comprehensive income for the year	–	2,759	2,759
At December 31, 2013	27,344	62	27,406

In HK$ million		The Company	
		2014	
	Share premium	**Retained profits**	**Total**
At January 1, 2014	**27,344**	**62**	**27,406**
Dividend paid in respect of the previous year	**–**	**(1,553)**	**(1,553)**
Interim dividend paid in respect of current year	**–**	**(1,590)**	**(1,590)**
Rights issue of Share Stapled Units *(note 28(a))*	**7,769**	**–**	**7,769**
Total comprehensive income for the year	**–**	**3,148**	**3,148**
At December 31, 2014	**35,113**	**67**	**35,180**

29 RESERVES

In HK$ million	The Groups 2013								
	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging Reserve	Other reserve	Equity compensation reserve	Treasury stock	Retained profits	Total
At January 1, 2013	26,250	464	(347)	177	–	4	(7)	4,387	30,928
Comprehensive income									
Profit for the year	–	–	–	–	–	–	–	2,460	2,460
Other comprehensive income									
Items that may be reclassified subsequently to consolidated income statement:									
Exchange differences on translating foreign operations	–	(22)	–	–	–	–	–	–	(22)
Available-for-sale financial assets:									
– changes in fair value	–	–	–	–	86	–	–	–	86
Cash flow hedges:									
– effective portion of changes in fair value	–	–	–	(10)	–	–	–	–	(10)
– transfer from equity to consolidated income statement	–	–	–	(53)	–	–	–	–	(53)
Total comprehensive income for the year	–	(22)	–	(63)	86	–	–	2,460	2,461
Transactions with equity holders									
Contributions by and distributions to equity holders:									
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	(52)	–	(52)
Employee share-based compensation	–	–	–	–	–	13	–	–	13
Vesting of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	(3)	3	–	–
Distribution/Dividend paid in respect of the previous year	–	–	–	–	–	(1)	–	(1,384)	(1,385)
Interim distribution/dividend declared and paid in respect of the current year	–	–	–	–	–	(1)	–	(1,347)	(1,348)
Total transactions with equity holders	–	–	–	–	–	8	(49)	(2,731)	(2,772)
At December 31, 2013	26,250	442	(347)	114	86	12	(56)	4,116	30,617

29 RESERVES *(CONTINUED)*

In HK$ million	The Groups 2014									
	Share Premium	Capital contribution reserve	Currency translation reserve	Merger reserve	Hedging Reserve	Other reserve	Equity compensation reserve	Treasury stock	Retained profits	Total
At January 1, 2014	–	26,250	442	(347)	114	86	12	(56)	4,116	30,617
Comprehensive income										
Profit for the year	–	–	–	–	–	–	–	–	2,991	2,991
Other comprehensive income										
Items that may be reclassified subsequently to consolidated income statement:										
Exchange differences on translating foreign operations	–	–	(150)	–	–	–	–	–	–	(150)
Exchange differences on translating foreign operations transferred to consolidated income statement upon disposal	–	–	(79)	–	–	–	–	–	–	(79)
Available-for-sale financial assets:										
– changes in fair value *(note 21)*	–	–	–	–	–	(110)	–	–	–	(110)
Cash flow hedges:										
– effective portion of changes in fair value	–	–	–	–	(18)	–	–	–	–	(18)
– transfer from equity to consolidated income statement	–	–	–	–	(24)	–	–	–	–	(24)
Total comprehensive income for the year	–	–	(229)	–	(42)	(110)	–	–	2,991	2,610
Transactions with equity holders										
Contributions by and distributions to equity holders:										
Purchase of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	–	(9)	–	(9)
Employee share-based compensation	–	–	–	–	–	–	59	–	–	59
Receipt of PCCW shares under the PCCW Subscription Scheme	–	–	–	–	–	21	–	–	–	21
Vesting of Share Stapled Units under the Share Stapled Units Award Schemes	–	–	–	–	–	–	(20)	20	–	–
Distribution/Dividend paid in respect of the previous year	–	–	–	–	–	–	(1)	–	(1,552)	(1,553)
Interim distribution/dividend declared and paid in respect of the current year	–	–	–	–	–	–	(1)	–	(1,589)	(1,590)
Rights issue of Share Stapled Units *(note 28(a))*	7,769	–	–	–	–	–	–	–	–	7,769
Total transactions with equity holders	7,769	–	–	–	–	21	37	11	(3,141)	4,697
At December 31, 2014	7,769	26,250	213	(347)	72	(3)	49	(45)	3,966	37,924

30 DEFERRED INCOME TAX

a. Movements in deferred income tax liabilities/(assets) during the year are as follows:

In HK$ million	The Groups 2013			
	Accelerated tax depreciation and amortization	Tax losses	Others	Total
Beginning of year	1,827	2	(1)	1,828
(Credited)/charged to the consolidated income statement *(note 12(a))*	(34)	(364)	3	(395)
Additions upon business combinations	–	–	19	19
End of year	1,793	(362)	21	1,452

In HK$ million	The Groups **2014**			
	Accelerated tax depreciation and amortization	**Tax losses**	**Others**	**Total**
Beginning of year	**1,793**	**(362)**	**21**	**1,452**
Credited to the consolidated income statement *(note 12(a))*	**(138)**	**–**	**(13)**	**(151)**
Additions upon business combinations	**921**	**–**	**–**	**921**
Exchange Differences	**–**	**–**	**(2)**	**(2)**
End of year	**2,576**	**(362)**	**6**	**2,220**

In HK$ million	The Groups 2013	**2014**
Deferred income tax assets:		
– to be recovered after more than 12 months	(280)	**(280)**
– to be recovered within 12 months	(79)	**(91)**
Deferred income tax assets recognized in the consolidated statement of financial position	(359)	**(371)**
Deferred income tax liabilities:		
– to be recovered after more than 12 months	1,601	**2,349**
– to be recovered within 12 months	210	**242**
Deferred income tax liabilities recognized in the consolidated statement of financial position	1,811	**2,591**
Deferred income tax liabilities (net)	1,452	**2,220**

30 DEFERRED INCOME TAX *(CONTINUED)*

b. The Groups had unutilized estimated tax losses for which no deferred income tax assets have been recognized of HK$4,448 million as at December 31, 2014 (2013: HK$6,109 million) to carry forward for deduction against future taxable income. Estimated tax losses of HK$14 million as at December 31, 2014 (2013: HK$21 million) will expire within 1 to 5 years. HK$822 million adjusted tax losses as at December 31, 2014 will expire after 5 years (2013: adjusted HK$806 million). The remaining portion of the tax losses, mainly relating to Hong Kong companies, can be carried forward indefinitely.

31 CARRIER LICENCE FEE LIABILITIES

As at December 31, 2014, the Groups had carrier licence fee liabilities repayable as follows:

In HK$ million	The Groups					
	2013			**2014**		
	Present value of the minimum annual fees	Interest expense relating to future periods	Total minimum annual fees	**Present value of the minimum annual fees**	**Interest expense relating to future periods**	**Total minimum annual fees**
Repayable within a period						
– not exceeding one year	209	10	219	**433**	**30**	**463**
– over one year, but not exceeding two years	166	23	189	**375**	**69**	**444**
– over two years, but not exceeding five years	246	96	342	**307**	**117**	**424**
– over five years	204	96	300	**272**	**171**	**443**
	825	225	1,050	**1,387**	**387**	**1,774**
Less: Amounts repayable within one year included under current liabilities	(209)	(10)	(219)	**(433)**	**(30)**	**(463)**
	616	215	831	**954**	**357**	**1,311**

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

a. Reconciliation of profit before income tax to net cash generated from operating activities

In HK$ million	The Groups 2013	**2014**
Profit before income tax	2,515	**3,300**
Adjustments for:		
Interest income	(52)	**(53)**
Finance costs	889	**1,172**
Cash flow hedges: transferred from equity	1	**1**
(Gains)/losses on fair value hedges	(5)	**4**
Net gains on cash flow hedging instruments transferred from equity	(21)	**(22)**
Net gain on fair value hedging instruments	(42)	**(47)**
Fair value loss/(gain) on financial assets and other service fee	1	**(27)**
Depreciation of property, plant and equipment	2,076	**3,071**
(Gain)/loss on disposals of property, plant and equipment, net	(13)	**2**
Gain on disposal of a subsidiary	–	**(55)**
(Write-back of provision)/provision for inventory obsolescence	(8)	**10**
Impairment loss for doubtful debts	129	**164**
Amortization of intangible assets	2,612	**2,802**
Amortization of land lease premium	12	**13**
Share of results of joint ventures	(74)	**(6)**
Share of results of an associate	24	**35**
Impairment loss on an interest in an associate	–	**52**
Share-based payment and post-employment benefit	24	**82**
Increase in financial assets at fair value through profit or loss for equity compensation scheme	(16)	**–**
Increase in treasury stock for equity compensation scheme	(52)	**(9)**
Recovery of impairment loss on an interest in a joint venture *(note 8)*	(22)	**–**
Decrease/(increase) in operating assets		
– inventories	(39)	**472**
– trade receivables	296	**(138)**
– prepayments, deposits and other current assets	(555)	**(430)**
– amounts due from related companies	5	**3**
– other non-current assets	(25)	**4**
(Decrease)/increase in operating liabilities		
– trade payables, accruals and other payables	(216)	**(270)**
– other long-term liabilities	(1)	**24**
– advances from customers	54	**(186)**
– amounts due to related companies	1	**(42)**
– deferred income (non-current)	(38)	**18**
Cash generated from operations	7,460	**9,944**
Interest received	14	**20**
Income tax paid, net of tax refund		
– Hong Kong profits tax paid	(293)	**(326)**
– Overseas profits tax paid	(38)	**(69)**
Net cash generated from operating activities	7,143	**9,569**

32 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

b. Additions upon business combinations

In HK$ million	The Groups 2013	**2014**
Purchase consideration	–	**20,029**
Net assets/(liabilities) acquired:		
Property, plant and equipment	–	**1,993**
Intangible assets	–	**6,391**
Inventories, trade receivables, prepayments, deposits and other current assets	–	**1,776**
Cash and cash equivalents	–	**1,186**
Trade payables, accruals, other payables and advances from customers	–	**(3,655)**
Current income tax liabilities	–	**(308)**
Deferred income tax liabilities	–	**(921)**
Deferred income	–	**(64)**
Non-controlling interests	–	**(36)**
Defined benefit assets	–	**26**
Interest in a joint venture	–	**14**
	–	**6,402**
Goodwill on acquisition	–	**13,627**
Analysis of net outflow of cash and cash equivalents in respect of additions upon business combinations:		
Purchase consideration not yet settled	–	**20,029**
Less: Consideration payable	–	**(74)**
	–	**19,955**
Cash and cash equivalents of subsidiaries acquired	–	**(1,186)**
Net outflow	–	**18,769**

c. Major non-cash transactions

During the year ended December 31, 2014, return on investment of a joint venture of approximately HK$55 million (2013: HK$231 million) was received by a fellow subsidiary on behalf of the Groups.

d. Analysis of cash and cash equivalents

In HK$ million	The Groups 2013	**2014**	The Company 2013	**2014**
Cash and bank balances	2,134	**3,613**	3	**102**
Cash and cash equivalents as at December 31,	2,134	**3,613**	3	**102**

33 CAPITAL MANAGEMENT

The Groups' primary objectives when managing capital are to safeguard the Groups' ability to continue as a going concern, so that it can continue to provide returns for equity holders of the Groups, to support the Groups' stability and growth; and to earn a margin commensurate with the level of business and market risks in the Groups' operation.

The Groups monitor capital by reviewing the level of capital that is at the disposal of the Groups ("adjusted capital"), taking into consideration the future capital requirements of the Groups, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Adjusted capital comprises all components of equity.

The Groups are not subject to externally imposed capital requirements, except for the debt covenant requirements of the loan agreements with external parties and the minimum capital requirement of a subsidiary regulated by Bermuda Monetary Authority.

34 FINANCIAL INSTRUMENTS

The table below analyses financial instruments by category:

In HK$ million	The Groups 2013				
	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial asset	Total
Non-current assets					
Available-for-sale financial assets	–	–	–	171	171
Financial assets at fair value through profit or loss	–	8	–	–	8
Derivative financial instruments	–	–	67	–	67
Other non-current assets	28	–	–	–	28
	28	8	67	171	274
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	2,893	–	–	–	2,893
Trade receivables, net	3,000	–	–	–	3,000
Financial assets at fair value through profit or loss	–	11	–	–	11
Amount due from related companies	49	–	–	–	49
Cash and cash equivalents	2,134	–	–	–	2,134
	8,076	11	–	–	8,087
Total	8,104	19	67	171	8,361

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

In HK$ million	The Groups 2013		
	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
Current liabilities			
Trade payables	–	1,803	1,803
Accruals and other payables	–	2,403	2,403
Carrier licence fee liabilities	–	209	209
Amounts due to related companies	–	136	136
Amounts due to fellow subsidiaries	–	441	441
	–	4,992	4,992
Non-current liabilities			
Long-term borrowings	–	24,022	24,022
Derivative financial instruments	405	–	405
Carrier licence fee liabilities	–	616	616
Other long-term liabilities	–	52	52
	405	24,690	25,095
Total	405	29,682	30,087

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

In HK$ million	The Groups 2014				
	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale financial asset	Total
Non-current assets					
Available-for-sale financial assets	–	–	–	61	61
Financial assets at fair value through profit or loss	–	21	–	–	21
Other non-current assets	25	–	–	–	25
	25	21	–	61	107
Current assets					
Prepayments, deposits and other current assets (excluding prepayments)	3,546	–	–	–	3,546
Trade receivables, net	3,875	–	–	–	3,875
Derivative financial instruments	–	–	49	–	49
Financial assets at fair value through profit or loss	–	18	–	–	18
Amount due from related companies	76	–	–	–	76
Cash and cash equivalents	3,613	–	–	–	3,613
	11,110	18	49	–	11,177
Total	11,135	39	49	61	11,284

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

The table below analyses financial instruments by category: *(continued)*

In HK$ million	The Groups 2014 Derivatives used for hedging	 Other financial liabilities at amortized cost	 Total
Current liabilities			
Short-term borrowings	–	3,877	3,877
Trade payables	–	1,979	1,979
Accruals and other payables	–	5,023	5,023
Carrier licence fee liabilities	–	433	433
Amounts due to related companies	–	94	94
Amounts due to fellow subsidiaries	–	278	278
	–	11,684	11,684
Non-current liabilities			
Long-term borrowings	–	32,549	32,549
Derivative financial instruments	100	–	100
Carrier licence fee liabilities	–	954	954
Other long-term liabilities	–	119	119
	100	33,622	33,722
Total	100	45,306	45,406

In HK$ million	The Company Loans and receivables 2013	 2014
Current assets		
Amount due from a subsidiary	7,490	7,437
Cash and bank balances	3	102
Total	7,493	7,539

In HK$ million	The Company Other financial liabilities at amortized cost 2013	 2014
Current liabilities		
Accruals and other payables	1	39
Amount due to subsidiaries	93	224
Total	94	263

Exposures to credit, liquidity and market risks (including foreign currency risk and interest rate risk) arise in the normal course of the Groups' business. The Groups are also exposed to equity price risk arising from its equity investments in other entities. Exposures to these risks are controlled by the Groups' financial management policies and practices described below.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

a. Credit risk

The Groups' credit risk is primarily attributable to trade receivables, interest receivable, foreign exchange and swap contracts and cash transactions entered into for risk and cash management purposes. Management has policies in place and exposures to these credit risks are monitored on an ongoing basis.

Trade receivables have a normal credit period ranging up to 30 days from the date of invoice unless there is a separate mutual agreement on extension of the credit period. The Groups maintain a well-defined credit policy and individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors who have overdue payables are requested to settle all outstanding balances before any further credit is granted. Normally, the Groups do not obtain collateral from customers. As at December 31, 2013 and 2014, the Groups did not have a significant exposure to any individual debtors or counterparties.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade receivables are set out in note 24(b).

Amounts due from related companies and other receivables are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at December 31, 2013 and 2014, the amounts due from related companies and other receivables were fully performing.

Investments, derivative financial instruments, interest receivable and cash transactions are executed with financial institutions or investment counterparties with sound credit ratings and the Groups do not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position. Except for the guarantees given by the Groups as disclosed in note 36, the Groups do not provide any other guarantees which would expose the Groups to credit risk.

b. Liquidity risk

The Groups' policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Management believes there is no significant liquidity risk as the Groups have sufficient cash and committed facilities to fund its operations and debt servicing requirements.

The Groups are subject to certain corporate guarantee obligation to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of business. Please refer to note 36 for details.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

The following table details the remaining contractual maturities at the end of the reporting periods of the Groups' non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting periods) and the earliest date the Groups can be required to pay:

In HK$ million	The Groups 2013					
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying Amount
Current liabilities						
Trade payables	(1,803)	–	–	–	(1,803)	(1,803)
Accruals and other payables	(2,403)	–	–	–	(2,403)	(2,403)
Carrier licence fee liabilities	(219)	–	–	–	(219)	(209)
Amounts due to related companies	(136)	–	–	–	(136)	(136)
Amounts due to fellow subsidiaries	(441)	–	–	–	(441)	(441)
	(5,002)	–	–	–	(5,002)	(4,992)
Non-current liabilities						
Long-term borrowings	(665)	(4,462)	(17,304)	(4,288)	(26,719)	(24,022)
Derivative financial instruments	46	32	(113)	(465)	(500)	(405)
Carrier licence fee liabilities	–	(189)	(342)	(300)	(831)	(616)
Other long-term liabilities	(5)	(5)	(29)	(52)	(91)	(52)
	(624)	(4,624)	(17,788)	(5,105)	(28,141)	(25,095)
Total	(5,626)	(4,624)	(17,788)	(5,105)	(33,143)	(30,087)

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

b. Liquidity risk *(continued)*

In HK$ million

	The Groups					
	2014					
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but within 5 years**	**More than 5 years**	**Total contractual undiscounted cash flow**	**Carrying Amount**
Current liabilities						
Short-term borrowings	**(3,992)**	**–**	**–**	**–**	**(3,992)**	**(3,877)**
Trade payables	**(1,979)**	**–**	**–**	**–**	**(1,979)**	**(1,979)**
Accruals and other payables	**(5,023)**	**–**	**–**	**–**	**(5,023)**	**(5,023)**
Carrier licence fee liabilities	**(463)**	**–**	**–**	**–**	**(463)**	**(433)**
Amounts due to related companies	**(94)**	**–**	**–**	**–**	**(94)**	**(94)**
Amounts due to fellow subsidiaries	**(278)**	**–**	**–**	**–**	**(278)**	**(278)**
	(11,829)	**–**	**–**	**–**	**(11,829)**	**(11,684)**
Non-current liabilities						
Long-term borrowings	**(659)**	**(12,212)**	**(18,013)**	**(4,195)**	**(35,079)**	**(32,549)**
Derivative financial instruments	**45**	**10**	**(87)**	**(85)**	**(117)**	**(100)**
Carrier licence fee liabilities	**–**	**(444)**	**(424)**	**(443)**	**(1,311)**	**(954)**
Other long-term liabilities	**(14)**	**(6)**	**(47)**	**(107)**	**(174)**	**(119)**
	(628)	**(12,652)**	**(18,571)**	**(4,830)**	**(36,681)**	**(33,722)**
Total	**(12,457)**	**(12,652)**	**(18,571)**	**(4,830)**	**(48,510)**	**(45,406)**

In HK$ million

	The Company					
	2013			**2014**		
	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying Amount	**Within 1 year or on demand**	**Total contractual undiscounted cash flow**	**Carrying Amount**
Current liabilities						
Accruals and other payables	(1)	(1)	(1)	**(39)**	**(39)**	**(39)**
Amounts due to subsidiaries	(93)	(93)	(93)	**(224)**	**(224)**	**(224)**
Total	(94)	(94)	(94)	**(263)**	**(263)**	**(263)**

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk

Market risk comprises foreign currency, interest rate and equity price exposures deriving from the Groups' operation, investment and funding activities. As a matter of policy, the Groups enter into cross currency swap contracts and other financial instruments to manage its exposure to market risk directly related to its operations and financing. The Groups do not undertake any speculative trading activities in connection with these financial instruments or enter into or acquire market risk sensitive instruments for trading purposes.

The Finance and Management Committee, a sub-committee of the Executive Committee of the Boards, determines the appropriate risk management activities with the aim of prudently managing the market risk associated with transactions entered into in the normal course of business.

All treasury risk management activities are carried out in accordance with policies and guidelines approved by the Finance and Management Committee and the Executive Committee, which are reviewed on a regular basis. Early termination and amendments to the terms of the transaction would typically occur when there are changes in the underlying assets or liabilities or in the risk management strategy of the Groups.

In the normal course of business, the Groups use the above-mentioned financial instruments to limit its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These instruments are executed with creditworthy financial institutions and all contracts are denominated in major currencies.

i. Foreign currency risk

The Groups operate internationally and are exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when the Groups' recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Groups borrowings are mainly denominated in either Hong Kong dollars or United States dollars. As at December 31, 2013 and 2014, a majority of the Groups' borrowings denominated in United States dollars were swapped into Hong Kong dollars by cross currency swap contracts. Given this, management does not expect that there will be any significant currency risk associated with the Groups' borrowings. Certain portion of the cross currency swap contracts outstanding as at December 31, 2014 with an aggregate notional contract amount of US$1,000 million (approximately HK$7,759 million) (2013: US$1,000 million (approximately HK$7,755 million)) was designated as cash flow hedges against foreign exchange rate risk.

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Groups ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary to address short-term imbalances.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

i. Foreign currency risk *(continued)*

The following table details the Groups' exposure as at the end of the reporting period to currency risk arising from significant recognized financial assets or liabilities denominated in foreign currencies.

In HK$ million	The Groups			
	2013		**2014**	
	United States Dollars	Renminbi	**United States Dollars**	**Renminbi**
Trade receivables	529	315	**1,053**	**106**
Amounts due from related companies	–	8	**–**	**11**
Cash and cash equivalents	672	277	**953**	**63**
Trade payables	(481)	(186)	**(975)**	**(40)**
Amounts due to related companies	(211)	–	**(94)**	**–**
Short-term borrowings	–	–	**(3,877)**	**–**
Long-term borrowings	(11,209)	–	**(7,618)**	**–**
Gross exposure arising from recognized financial (liabilities)/assets	(10,700)	414	**(10,558)**	**140**
Net financial liabilities denominated in respective entities' functional currencies	(74)	(431)	**(276)**	**(149)**
Notional amounts of cross currency swap contracts designated as fair value or cash flow hedges	7,755	–	**7,760**	**–**
Overall net exposure	(3,019)	(17)	**(3,074)**	**(9)**

If the Hong Kong dollar had weakened/strengthened by 1% against the United States dollar, with all other variables held constant as at December 31, 2014, the profit after tax of the Groups for the year ended December 31, 2014 would have increased/decreased by approximately HK$26 million (2013: HK$25 million), mainly as a result of foreign exchange gains/losses on translation of United States dollar denominated recognized assets and liabilities which are not hedged by hedging instruments. Meanwhile, the hedging reserve as at December 31, 2014 would have increased/decreased by approximately HK$39 million (2013: HK$39 million) mainly as a result of foreign exchange gains/losses on the short-term and long-term borrowings being hedged by cross currency swap contracts.

If the Hong Kong dollar had weakened/strengthened by 5% against the Chinese Renminbi, with all other variables held constant as at December 31, 2014, there would be no material impact on the Groups' profit after tax for the year ended December 31, 2014.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred as at the end of the reporting periods and had been applied to the Groups' exposure to currency risk for recognized assets and liabilities in existence at the dates, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the periods until the end of the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in the movement in value of the United States dollar against other currencies. The analysis is performed on the same basis for the years ended December 31, 2013 and 2014.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

ii. Interest rate risk

As the Groups have no significant interest-bearing assets, the Groups' income and operating cash flows are substantially independent of changes in market interest rates.

The Groups' interest rate risk arises primarily from short-term and long-term borrowings. Borrowings at variable rates and fixed rates expose the Groups to cash flow interest rate risk and fair value interest rate risk respectively. In addition, from time to time, the Groups draw under long-term revolving credit and term facilities which are denominated in Hong Kong dollars and pays interest at floating rate.

The Groups entered into fixed-to-floating cross currency swap contracts to hedge the fair value interest rate risk arising from certain of its fixed rate long-term borrowings.

The following table details the interest rate profile of the Groups' borrowings as at the end of the reporting periods, after taking into account the effect of cross currency swap contracts designated as cash flow and fair value hedging instruments.

	The Groups			
	2013		**2014**	
	Effective interest rate %	HK$ million	**Effective interest rate %**	**HK$ million**
Net fixed rate borrowings:				
Short-term borrowings with cash flow hedging instruments	–	–	**5.42**	**3,877**
Long-term borrowings with/without cash flow hedging instruments	4.28	7,829	**3.17**	**3,924**
Variable rate borrowings:				
Bank borrowings	1.65	12,813	**1.56**	**24,931**
Long-term borrowings with fair value hedging instruments	3.95	3,380	**3.95**	**3,694**
Total borrowings		24,022		**36,426**

If interest rates on Hong Kong dollar denominated borrowings had increased/decreased by 10 basis points as at December 31, 2014, with all other variables held constant, the Groups' profit after tax for the year ended December 31, 2014 would have decreased/increased by approximately HK$20 million (2013: HK$12 million) mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred as at the end of the reporting periods and had been applied to the exposure to interest rate risk for the Groups' floating rate borrowings in existence at those dates. The 10 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the periods until the end of the next annual reporting period. The analysis is performed on the same basis for the years ended December 31, 2013 and 2014.

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

c. Market risk *(continued)*

iii. Equity price risk

The Groups are exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 21) and financial assets at fair value through profit or loss (note 22). The investments are listed on a recognized stock exchange.

Given the insignificant portfolio of listed equity securities held by the Groups, management believes that the Groups' equity price risk is minimal.

d. Fair values of financial liabilities measured at amortized cost

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2013 and 2014 except as follows, with fair values calculated by quoted prices:

In HK$ million	The Groups			
	2013		**2014**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
Short-term borrowings	–	–	**3,877**	**3,963**
Long-term borrowings	24,022	24,501	**32,549**	**32,757**

The fair values of short-term and long-term borrowings are the net present value of the estimated future cash flows discounted at the borrowing rates. The fair values are within level 2 of the fair value hierarchy (see note 34(e)).

e. Estimation of fair values

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for asset or liability that are not based on observable market data (level 3).

34 FINANCIAL INSTRUMENTS *(CONTINUED)*

e. Estimation of fair values *(continued)*

The following table presents the Groups' financial assets and liabilities that are measured at fair value:

In HK$ million	The Groups			
	2013			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Listed equity securities	171	–	–	171
Financial assets at fair value through profit or loss	19	–	–	19
Derivative financial instruments	–	67	–	67
Total assets	190	67	–	257
Liabilities				
Derivative financial instruments	–	(405)	–	(405)

In HK$ million	The Groups			
	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets				
– Listed equity securities	**61**	**–**	**–**	**61**
Financial assets at fair value through profit or loss	**39**	**–**	**–**	**39**
Derivative financial instruments	**–**	**49**	**–**	**49**
Total assets	**100**	**49**	**–**	**149**
Liabilities				
Derivative financial instruments	**–**	**(100)**	**–**	**(100)**

The fair value of financial instruments traded in active markets is based on quoted market prices as at the end of the reporting periods. The quoted market price used for financial assets held by the Groups included in level 1 is the current bid price. Instruments included in level 1 comprise available-for-sale financial assets listed on the Alternative Investment Market operated by London Stock Exchange plc and financial assets at fair value through profit or loss listed on the Stock Exchange.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. Instruments included in level 2 comprise cross currency swap contracts. In measuring the swap transactions, the fair value is the net present value of the estimated future cash flow discounted at the market quoted swap rates.

There were no transfers of financial assets and liabilities between fair value hierarchy classifications during the years ended December 31, 2013 and 2014.

f. Groups' valuation process

The Groups' finance department includes a team that performs the valuations of financial assets required for financial reporting purposes. Valuation results are reviewed by senior management semi-annually, in line with the Groups' reporting dates.

35 COMMITMENTS

a. Capital

In HK$ million	The Groups 2013	**2014**
Authorized and contracted for	856	**656**
Authorized but not contracted for	617	**868**
	1,473	**1,524**

An analysis of the above capital commitments by nature is as follows:

In HK$ million	The Groups 2013	**2014**
Investments	37	**21**
Acquisition of property, plant and equipment	1,436	**1,503**
	1,473	**1,524**

b. Operating leases

As at December 31, 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Land and buildings

In HK$ million	The Groups 2013	**2014**
Within 1 year	695	**1,240**
After 1 year but within 5 years	877	**1,125**
After 5 years	15	**10**
	1,587	**2,375**

Network capacity and equipment

In HK$ million	The Groups 2013	**2014**
Within 1 year	1,054	**1,283**
After 1 year but within 5 years	692	**744**
After 5 years	300	**264**
	2,046	**2,291**

Majority of the leases typically run for a period of 1 to 11 years as at December 31, 2014 (2013: 1 to 11 years). None of the leases include contingent rentals.

35 COMMITMENTS *(CONTINUED)*

c. Others

As at December 31, 2014, the Groups have other outstanding commitments as follows:

In HK$ million	The Groups 2013	**2014**
Operating expenditure commitment	227	**2,177**
	227	**2,177**

36 CONTINGENT LIABILITIES

In HK$ million	The Groups 2013	**2014**
Performance guarantees	182	**2,128**
Guarantees given to banks in respect of credit facilities granted to an associate	64	**62**
Others	5	**12**
	251	**2,202**

The Groups are subject to certain corporate guarantee obligations to guarantee performance of its subsidiaries and fellow subsidiaries in the normal course of their businesses. The amount of liabilities arising from such obligations, if any, cannot be ascertained but the directors are of the opinion that any resulting liability would not materially affect the financial position of the Groups.

37 BANK LOAN FACILITIES

Aggregate bank loan facilities as at December 31, 2014 was HK$29,377 million (2013: HK$17,676 million) of which the unused facilities amounted to HK$4,230 million (2013: HK$4,750 million). The increase in bank loans was reflection of the additional borrowings raised for the CSL acquisition and the rights issue completed in July 2014.

All of the Groups' banking facilities are subject to the fulfillment of covenants relating to certain of the Groups' statement of financial position ratios, as are commonly found in lending arrangement with financial institutions. If the Groups were to breach the covenants the drawn down facilities would become payable on demand. The Groups' regularly monitors its compliance with these covenants. As at December 31, 2014, none of the covenants relating to drawn down facilities was breached. Further details of the Groups' management of liquidity risk are set out in note 34(b).

Summaries of major borrowings are set out in notes 24(c) and 25.

38 BUSINESS COMBINATIONS

a. Business combinations during the year ended December 31, 2014

i. Acquisition of CSL Holdings Limited (formerly known as CSL New World Mobility Limited) and its subsidiaries (together the "CSL Group")

On May 14, 2014, the Groups completed the acquisition of the entire issued share capital of CSL Holdings Limited (formerly known as CSL New World Mobility Limited), a company incorporated in Bermuda, and its subsidiaries. The purpose of the acquisition is to bolster the Group's telecommunications business and continue to meet the needs of Hong Kong public and local and international businesses with a wide range of telecommunications services through 4G, 3G and 2G networks, and the sales of mobile telecommunications products, to customers in Hong Kong. The estimated aggregate consideration (which is subject to potential adjustments regarding the amount of net working capital of CSL Group, if any, upon finalization of its audited completion accounts) was approximately US$2,580 million (approximately HK$20,017 million) which was recognized in the accounts for the acquisition. A payment of US$2,572 million (approximately HK$19,943 million) has been made by the Groups in May 2014 upon the completion of the acquisition. The remaining balance is recorded as consideration payable as at December 31, 2014.

The Groups are required to recognize the acquired companies' identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date. As of the date of these consolidated financial statements, the purchase price allocation process is ongoing and has yet to be finalized. In the preparation of these consolidated financial statements, the Groups have used the estimated fair values of the acquired assets and liabilities with the excess of the cost of acquisition over these estimated fair values being recorded as goodwill. This allocation of the purchase price to the acquired assets and liabilities is provisional and will be adjusted in the Group's 2015 consolidated financial statements when the purchase price allocation is finalized. Had the purchase price allocation been completed, the fair values of the assets and liabilities acquired and the amount of goodwill to be recorded could be materially different from the amounts recognized. The values of assets and liabilities acquired and the resulting goodwill will be adjusted retrospectively upon the completion of the purchase price allocation in 2015.

(i) Details of net assets acquired and goodwill in respect of acquisitions of the CSL Group at the acquisition date were as follows:

In HK$ million

	Net assets acquired and goodwill
Aggregate consideration	**20,017**
Less: Estimated fair value of net assets acquired	**(6,402)**
Goodwill on acquisition	**13,615**

The goodwill is attributable to the expected future profits generated from the telecommunications business strengthened by enhancement of mobile services income stream through increased economies of scale, enlargement of service capacity and improvement of indoor signal coverage and customer experience, strengthening of roaming business and opportunity to realize operational synergies.

None of the goodwill is expected to be deductible for tax purposes.

38 BUSINESS COMBINATIONS *(CONTINUED)*

a. Business combinations during the year ended December 31, 2014 *(continued)*

i. Acquisition of CSL Holdings Limited (formerly known as CSL New World Mobility Limited) and its subsidiaries (together the "CSL Group") *(continued)*

(i) Details of net assets acquired and goodwill in respect of acquisitions of the CSL Group at the acquisition date were as follows: *(continued)*

The assets and liabilities of the CSL Group at the acquisition date were as follows:

In HK$ million	Estimated fair value
Property, plant and equipment	1,992
Intangible assets	6,391
Interests in a joint venture	14
Prepayments, deposits, trade receivables, net and other current and non-current assets	1,574
Defined benefit assets	26
Inventories	202
Cash and cash equivalents	1,186
Trade payables	(287)
Accruals, other payables and carrier licence fee liabilities (current and non-current)	(2,745)
Advances from customers	(622)
Deferred income	(64)
Current income tax liabilities	(308)
Deferred income tax liabilities	(921)
	6,438
Non-controlling interests	(36)
Net assets acquired	6,402

In HK$ million	Net cash outflow
Total considerations	20,017
less: consideration not yet settled	(74)
Purchase consideration settled in cash	19,943
Cash and cash equivalents acquired	(1,186)
	18,757

38 BUSINESS COMBINATIONS *(CONTINUED)*

a. Business combinations during the year ended December 31, 2014 *(continued)*

i. Acquisition of CSL Holdings Limited (formerly known as CSL New World Mobility Limited) and its subsidiaries (together the "CSL Group") *(continued)*

(ii) Revenue and profit contribution

CSL Group's revenue and profit attributable to equity holders for the period from January 1, 2014 to the acquisition date were HK$2,942 million and HK$371 million, respectively. The business of the CSL Group has been integrated into the Groups since its acquisition date. Accordingly, it is not practical to quantify the individual contribution of the CSL Group to the revenue and profit of the Groups during the year ended December 31, 2014 on any reasonable basis.

ii Acquisition of Crypteia Networks S.A.

On October 20, 2014, the Groups completed the acquisition of the entire issued share capital of Crypteia Networks S.A., a private company incorporated in Greece. Leverage on acquiree's advanced cyber threat detective capabilities, the acquisition helps to position the Groups as a leading network security player in the market. The aggregate consideration was not material.

39 DISPOSAL OF INTERESTS IN A SUBSIDIARY

On October 14, 2014, the Groups entered into a sale and purchase agreement pursuant to which the Groups have agreed to sell its entire equity interest in Unihub China Information Technology Company Limited an indirect non-wholly owned subsidiary of the Company, to an independent third party for an aggregated consideration of RMB180 million (equivalent to approximately HK$225 million).

The transaction was completed in December 2014.

Details of net assets disposed of and the gain on disposal of interests in Unihub China Information Technology Company Limited at the date of disposal were as follows:

In HK$ million

	Net assets disposed of and the gain
Consideration received from disposal of interests in Unihub China Information Technology Company Limited	**225**
PRC withholding tax	**(14)**
Carrying amount of net assets disposed of	**(199)**
Direct expenses in relation to disposal	**(36)**
Exchange differences on translating foreign operations transferred to consolidated income statement upon disposal	**79**
Gain on disposal recognized in the consolidated income statement *(note 8)*	**55**

39 DISPOSAL OF INTERESTS IN A SUBSIDIARY *(CONTINUED)*

The assets and liabilities of Unihub China Information Technology Company Limited at the date of disposal were as follows:

In HK$ million

	Note	Carrying amount
Property, plant and equipment	15	**5**
Inventories		**117**
Prepayments, deposits and other current assets		**58**
Trade receivables, net		**234**
Cash and cash equivalents		**191**
Advance from customers		**(177)**
Trade payables, accruals and other payables		**(98)**
Current income tax liabilities		**(7)**
		323
Non-controlling interests		**(124)**
Net assets disposed of		**199**

In HK$ million

	Net cash inflow
Consideration received in cash	**211**
Cash and cash equivalents of Unihub China Information Technology Company Limited disposed of	**(191)**
	20

40 SUBSEQUENT EVENT

In January 2015, HKT Capital No.1 Limited, an indirect wholly-owned subsidiary of the Company, issued a US$300 million (approximately HK$2,328 million) 15-year zero coupon guaranteed notes due 2030 which are listed on the GreTai Securities Market in Taiwan, China for general corporate purposes including the repayment of existing indebtedness. The notes are irrevocably and unconditionally guaranteed by HKTGH and HKTL and rank pari passu with all other outstanding unsecured and unsubordinated obligations of HKTGH and HKTL.

41 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2014

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2014 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions	July 1, 2014
HKAS 16 (Amendment)	Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016
HKAS 16 (Amendment)	Property, Plant and Equipment – Agriculture: Bearer Plants	January 1, 2016
HKAS 27 (2011) (Amendment)	Separate Financial Statements – Equity Method in Separate Financial Statements	January 1, 2016
HKAS 28 (2011) (Amendment)	Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKAS 38 (Amendment)	Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016
HKAS 41 (Amendment)	Agriculture: Bearer Plants	January 1, 2016
HKFRS 10 (Amendment)	Consolidated Financial Statements – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKFRS 11 (Amendment)	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
HKFRS 14	Regulatory Deferral Accounts	January 1, 2016
HKFRS 15	Revenue from Contracts with Customers	January 1, 2017
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
Annual Improvements to 2010-2012 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual Improvements to 2011-2013 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual Improvements to 2012-2014 Cycle published in October 2014 by HKICPA		January 1, 2016

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended December 31, 2014 and have not been adopted in these financial statements.

The Groups are in the process of making an assessment of what the impact of these amendments, new or revised standards, new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards, new interpretations and the new ordinances would have a significant impact on the Group's results of operations and financial position.

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2014

Results

In HK$ million	2010	2011	2012	2013	**2014**
Turnover by Principal Activity					
Telecommunications Services	15,414	16,357	17,348	18,773	**19,309**
Mobile	2,316	2,658	3,049	3,371	**8,950**
Other businesses	797	810	684	688	**564**
	18,527	19,825	21,081	22,832	**28,823**
Cost of sales	(7,451)	(8,149)	(9,027)	(10,117)	**(12,053)**
General and administrative expenses	(8,131)	(8,510)	(9,073)	(9,501)	**(12,416)**
Other gains/(losses), net	40	(28)	18	84	**151**
Finance costs, net	(1,562)	(1,504)	(805)	(833)	**(1,124)**
Share of results of equity accounted entities	(73)	(19)	(79)	50	**(81)**
Profit before income tax	1,350	1,615	2,115	2,515	**3,300**
Income tax	(378)	(344)	(455)	(16)	**(242)**
Profit for the year	972	1,271	1,660	2,499	**3,058**
Attributable to:					
Holders of Share Stapled Units/shares of the Company	925	1,221	1,610	2,460	**2,991**
Non-controlling interests	47	50	50	39	**67**

Assets and Liabilities

As at 31 December in HK$ million	2010	2011	2012	2013	**2014**
Total non-current assets	57,213	56,854	56,810	56,348	**77,542**
Total current assets	10,454	8,184	9,563	9,471	**12,258**
Total current liabilities	(17,233)	(6,862)	(16,005)	(7,157)	**(14,415)**
Net current (liabilities)/assets	(6,779)	1,322	(6,442)	2,314	**(2,157)**
Total assets less current liabilities	50,434	58,176	50,368	58,662	**75,385**
Total non-current liabilities	(30,921)	(27,243)	(19,251)	(27,857)	**(37,346)**
Net assets	19,513	30,933	31,117	30,805	**38,039**

During the year ended December 31, 2014, the Groups completed an internal reorganization in connection with the acquisition of CSL Holdings Limited (formerly known as CSL New World Mobility Limited) and its subsidiaries. As a result, management has made changes to the Groups' internal reporting that caused changes to reportable segments and segment presentation. The prior year ended December 31, 2013 segment information has been restated to conform with the revised presentation.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

TO THE SOLE SHAREHOLDER OF HKT MANAGEMENT LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of HKT Management Limited (the "Company") set out on pages 155 to 163, which comprise the statement of financial position as at December 31, 2014, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 80 of Schedule 11 to the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2014 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, February 10, 2015

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong

INCOME STATEMENT OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2014

In HK$'000	Note	2013	**2014**
Management fee income		13	**45**
General and administrative expenses		(42)	**(45)**
Loss before income tax	5	(29)	**–**
Income tax	6	–	**–**
Loss for the year		(29)	**–**

The notes on pages 160 to 163 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2014

In HK$'000	2013	**2014**
Loss for the year	(29)	**–**
Other comprehensive income	–	**–**
Total comprehensive loss for the year	(29)	**–**

The notes on pages 160 to 163 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2014

In HK$'000	2013		
	Share capital	Deficit	Total
As at January 1, 2013	–	(13)	(13)
Comprehensive loss			
Loss for the year	–	(29)	(29)
Other comprehensive income	–	–	–
Total comprehensive loss for the year	–	(29)	(29)
Transactions with the equity holder of the Company	–	–	–
As at December 31, 2013	–	(42)	(42)

In HK$'000	**2014**		
	Share capital	**Deficit**	**Total**
As at January 1, 2014	**–**	**(42)**	**(42)**
Comprehensive loss			
Loss for the year	**–**	**–**	**–**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive loss for the year	**–**	**–**	**–**
Transactions with the equity holder of the Company	**–**	**–**	**–**
As at December 31, 2014	**–**	**(42)**	**(42)**

The notes on pages 160 to 163 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HKT MANAGEMENT LIMITED

As at December 31, 2014

In HK$'000	Note	2013	**2014**
ASSETS AND LIABILITIES			
Current assets			
Amount due from a fellow subsidiary	4(c)	39	**84**
		39	**84**
Current liabilities			
Accruals and other payables		80	**82**
Amount due to a fellow subsidiary	4(c)	1	**44**
		81	**126**
Net current liabilities		(42)	**(42)**
Net liabilities		(42)	**(42)**
CAPITAL AND RESERVES			
Share capital	7	–	**–**
Deficit		(42)	**(42)**
Total equity		(42)	**(42)**

Approved and authorized for issue by the board of directors (the "Board") on February 10, 2015 and signed on behalf of the Board by

Alexander Anthony Arena
Director

Hui Hon Hing, Susanna
Director

The notes on pages 160 to 163 form part of these financial statements.

STATEMENT OF CASH FLOWS OF HKT MANAGEMENT LIMITED

For the year ended December 31, 2014

In HK$'000	2013	**2014**
Operating activities		
Loss before income tax	(29)	**–**
Adjustments for:		
Increase in amount due from a fellow subsidiary	(13)	**(45)**
Increase in accruals and other payables	41	**2**
Increase in amount due to a fellow subsidiary	1	**43**
Net cash generated from operating activities	–	**–**
Investing activities		
Net cash used in investing activities	–	**–**
Financing activities		
Net cash used in financing activities	–	**–**
Net change in cash and cash equivalents	–	**–**
Cash and cash equivalents		
Beginning of year	–	**–**
End of year	–	**–**

The notes on pages 160 to 163 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF HKT MANAGEMENT LIMITED

December 31, 2014

1 GENERAL INFORMATION

HKT Management Limited (the "Company") was incorporated in Hong Kong under the Companies Ordinance on June 14, 2011. Its registered office is located at 39th Floor, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company is an indirect wholly-owned subsidiary of PCCW Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited.

The Company has a limited and specific role, which is to administer the HKT Trust.

The financial statements are presented in thousands units of Hong Kong dollars (HK$'000), which is the presentation and functional currency of the Company, unless otherwise stated.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term for all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Company is set out below.

b. Basis of preparation of the financial statements

The Company has not adopted any new standard or interpretation that is not effective for the current accounting period, details of which are set out in note 10.

The measurement basis used in the preparation of the financial statements is historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 3.

c. Impairment of assets

Internal and external sources of information are reviewed at each statement of financial position date to identify indications that the following assets may be impaired or, an impairment loss previously recognized no longer exists or may have decreased.

– intercompany receivables

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a Cash-generating unit ("CGU")).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

d. Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if:

i. the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;

ii. the Company and the party are subject to common control;

iii. the party is an associate of the Company or a joint venture in which the Company is a venturer;

iv. the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v. the party is a close family member of a party referred to in (i) above or is an entity under the control, joint control or significant influence of such individuals; or

vi. the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company has no accounting estimates and judgements that would significantly affect its results and financial position.

4 RELATED PARTY TRANSACTIONS

During the year, the Company had the following significant transaction with a related party:

In HK$'000	2013	**2014**
Management fee refund from a fellow subsidiary	13	**45**

a. This transaction was carried out after negotiations between the Company and the related party in the ordinary course of business and on the basis of estimated market value as determined by the directors.

b. The directors' emoluments of the Company were borne by a fellow subsidiary of the Company for the years ended December 31, 2013 and 2014.

c. The balance with a fellow subsidiary is unsecured, non-interest bearing and receivable/payable on demand.

5 LOSS BEFORE INCOME TAX

Loss before income tax is stated after charging the following:

In HK$'000	2013	**2014**
Charging:		
Auditor's remuneration	41	**43**

6 INCOME TAX

No Hong Kong profits tax has been provided as the Company does not have any assessable profit during the years ended December 31, 2013 and 2014.

No deferred income tax asset and liability was recognized as at December 31, 2013 and 2014.

7 SHARE CAPITAL

	2013		**2014**	
	Number of Shares	Value HK$	**Number of Shares**	**Value HK$**
Authorized: *(note (a))*				
Ordinary shares of HK$1 each				
Beginning and end of year *(note (b))*	10,000	10,000	–	–
Issued and fully paid:				
Ordinary shares of HK$1 each				
Beginning and end of year	1	1	**1**	**1**

a. Under the new Hong Kong Companies Ordinance (Cap. 622) which came into effect on March 3, 2014, the concept of authorized share capital no longer exists.

b. In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from March 3, 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the member(s) as a result of this transition.

8 CAPITAL MANAGEMENT

The Company has a specific and limited role to administer the HKT Trust. It is not actively engaged in running the telecommunications business which is managed by HKT Limited, a fellow subsidiary of the Company, and the operating subsidiaries of HKT Limited. Therefore, the Company is not subject to externally imposed capital requirements.

9 FINANCIAL INSTRUMENTS

As the principal activity of the Company is to administer the HKT Trust, the Company is not exposed to market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk). Risk management is carried out under policies approved by the Board of Directors.

10 POSSIBLE IMPACT OF AMENDMENTS, NEW OR REVISED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED DECEMBER 31, 2014

Up to the date of approval of these financial statements, the HKICPA has issued the following amendments, new or revised standards and interpretations which are not yet effective for the accounting period ended December 31, 2014 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions	July 1, 2014
HKAS 16 (Amendment)	Property, Plant and Equipment – Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016
HKAS 16 (Amendment)	Property, Plant and Equipment – Agriculture: Bearer Plants	January 1, 2016
HKAS 27 (2011) (Amendment)	Separate Financial Statements – Equity Method in Separate Financial Statements	January 1, 2016
HKAS 28 (2011) (Amendment)	Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKAS 38 (Amendment)	Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation	January 1, 2016
HKAS 41 (Amendment)	Agriculture: Bearer Plants	January 1, 2016
HKFRS 10 (Amendment)	Consolidated Financial Statements – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	January 1, 2016
HKFRS 11 (Amendment)	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
HKFRS 14	Regulatory Deferral Accounts	January 1, 2016
HKFRS 15	Revenue from Contracts with Customers	January 1, 2017
HKFRS 9 (2014)	Financial Instruments	January 1, 2018
Annual Improvements to 2010-2012 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual Improvements to 2011-2013 Cycle published in January 2014 by HKICPA		July 1, 2014
Annual Improvements to 2012-2014 Cycle published in October 2014 by HKICPA		January 1, 2016

Apart from the above, a number of improvements and minor amendments to HKFRSs have also been issued by the HKICPA but they are not yet effective for the accounting period ended 31 December 2014 and have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new or revised standards and new interpretations would have a significant impact on the Company's results of operations and financial position.

CORPORATE INFORMATION

HKT LIMITED

(incorporated in the Cayman Islands with limited liability)

BOARD OF DIRECTORS

Executive Directors:
Li Tzar Kai, Richard *(Executive Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors:
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen
Srinivas Bangalore Gangaiah (aka BG Srinivas)

Independent Non-Executive Directors:
Professor Chang Hsin Kang, FREng, GBS, JP
The Hon Raymond George Hardenbergh Seitz
Sunil Varma
Aman Mehta

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Philana WY Poon

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

ANNUAL REPORT 2014

This Annual Report 2014 in both English and Chinese is now available in printed form from HKT Limited, HKT Management Limited and the Share Stapled Units Registrar, and in accessible format on the websites of HKT Limited (www.hkt.com/ir) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk).

Holders of share stapled units who:

A) received the Annual Report 2014 using electronic means through the website of HKT Limited may request a printed copy, or
B) received the Annual Report 2014 in either English or Chinese may request a printed copy of the other language version

by writing or sending email to HKT Limited and/or HKT Management Limited c/o the Share Stapled Units Registrar at:

Computershare Hong Kong Investor Services Limited
Investor Communications Centre
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8688
Fax: +852 2865 0990
Email: hkt@computershare.com.hk

Holders of share stapled units who have chosen (or are deemed to have agreed) to receive the corporate communications of the HKT Trust, HKT Limited and HKT Management Limited (including but not limited to the Annual Report 2014) using electronic means through the website of HKT Limited and who, for any reason, have difficulty in receiving or gaining access to the Annual Report 2014 will promptly, upon request in writing or by email to the Share Stapled Units Registrar, be sent the Annual Report 2014 in printed form, free of charge.

Holders of share stapled units may change their choice of language and/or means of receipt of future corporate communications of the HKT Trust, HKT Limited and HKT Management Limited at any time, free of charge, by reasonable prior notice in writing or by email to the Share Stapled Units Registrar.

LISTING

The share stapled units of the HKT Trust and HKT Limited are listed on The Stock Exchange of Hong Kong Limited.

STOCK CODES

The Stock Exchange of Hong Kong Limited	6823
Reuters	6823.HK
Bloomberg	6823 HK

HKT MANAGEMENT LIMITED

(incorporated in Hong Kong with limited liability)
(THE TRUSTEE-MANAGER OF THE HKT TRUST)

BOARD OF DIRECTORS

Executive Directors:
Li Tzar Kai, Richard *(Executive Chairman)*
Alexander Anthony Arena *(Group Managing Director)*
Hui Hon Hing, Susanna *(Group Chief Financial Officer)*

Non-Executive Directors:
Peter Anthony Allen
Chung Cho Yee, Mico
Lu Yimin
Li Fushen
Srinivas Bangalore Gangaiah (aka BG Srinivas)

Independent Non-Executive Directors:
Professor Chang Hsin Kang, FREng, GBS, JP
The Hon Raymond George Hardenbergh Seitz
Sunil Varma
Aman Mehta

GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Philana WY Poon

REGISTERED OFFICE

39th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

SHARE STAPLED UNITS REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong
Telephone: +852 2862 8555
Fax: +852 2865 0990
Email: hkinfo@computershare.com.hk

SHARE STAPLED UNITS INFORMATION

Board lot	1,000 units
Issued units as at December 31, 2014	7,571,742,334 units

DISTRIBUTION

Distribution per share stapled unit for the year ended December 31, 2014:

Interim	21.00 HK cents
Final	23.30 HK cents

FINANCIAL CALENDAR

Announcement of 2014 Annual Results	February 10, 2015
Closure of books	May 13 – 14, 2015 (both days inclusive)
Record date for 2014 final distribution	May 14, 2015
Payment of 2014 final distribution	On or around May 29, 2015
2015 Annual General Meeting	May 7, 2015

INVESTOR RELATIONS

For more information, please contact Investor Relations at:
Telephone: +852 2514 5084
Email: ir@hkt.com

WEBSITE OF HKT LIMITED

www.hkt.com

Forward-Looking Statements

This annual report contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to revenues and earnings. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the directors and management of HKT about the business, industry and markets in which we operate.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Consequently, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include:

- increased competition in the Hong Kong telecommunications market;
- possible negative effects of potentially new legislation, regulations, guidelines, decisions or directives;
- possible negative effects of potentially new regulatory developments;
- our ability to implement our business plan as a consequence of our substantial debt;
- our exposure to interest rate risk;
- our ability to obtain additional capital; and
- our ability to execute our business strategy, including our ability to enter into business combinations and restructuring, strategic investments and acquisitions and challenges in growing business organically.

Reliance should not be placed on these forward-looking statements, which reflect the views of the directors and management of HKT as at the date of this annual report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this annual report.

HKT Trust (A trust constituted on November 7, 2011 under the laws of Hong Kong and managed by HKT Management Limited)
and
HKT Limited (Incorporated in the Cayman Islands with limited liability)

Principal Place of Business in Hong Kong:
39/F, PCCW Tower, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
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The Share Stapled Units are listed on The Stock Exchange of Hong Kong Limited (SEHK: 6823).

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